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DEPARTMENTS

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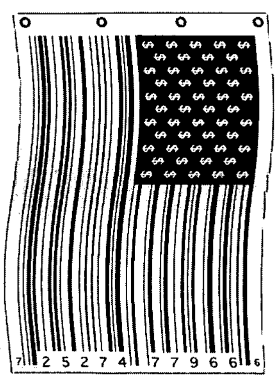

FEATURES

CRITICISM

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Ross Gelbspan's book *The Heat Is On: The High Stakes Battle Over Earth's Threatened Climate* will be published in April by Addison Wesley Longman.

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Stanley B. Greenberg was pollster to Bill Clinton in 1992 and has served as pollster to the Democratic National Committee. He is the author of *Middle Class Dreams: The Politics and Power of the New American Majority.*

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Cover: Bob Dahm

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Has the swing to a free market gone too far? Co-editor Robert Kuttner's cover piece, adapted from his new book, *Everything for Sale*, makes the general case for restoring a mixed economy. In companion essays, Deborah Stone anatomizes the marketization of health care and Ross Gelbspan discusses the failure of the free market to deal with the menace of global warming. By coincidence, George Soros, the world's premier currency trader, warned in February's *Atlantic Monthly* of the menace of unregulated capitalism. Alas, Soros is the exception; most captains of industry and finance believe the more market, the merrier. But a real discussion has begun, allies are in unlikely places, and we aim to move the debate along.

Historically, the political steward of a mixed economy has been the Democratic Party. Today, it is the Democrats who are mixed, with some thinking that the party's salvation lies in an embrace of fashionable entrepreneurship, while others invoke the party of Roosevelt and public remedy. In this issue, we feature a debate between leading Democratic pollsters and their clients, representing the centrist Democratic Leadership Council and the left-of-center Campaign for America's Future.

And speaking of progressives, we are delighted to welcome back our co-founder, Robert Reich, from his four-year sabbatical as Labor Secretary. With this issue, he resumes his post of editorial chairman. Watch this space.

PAUL STARR

Democracy v. Dollar

Democracy, many people have said, is a matter of faith, but why, dear Lord, must our faith be tested so often? Lately, the role of money in political campaigns has been mocking our civic creed. "Here the people rule," we are taught, and we would like to think so. But if the voters (and nonvoters) seem disbelieving, they may merely be acquainted with the material facts of political life. Congressional candidates in this last election cycle raised $1.3 billion, which is a lot of money to change hands with pure intentions. Fiorello La Guardia, New York's reform mayor of the 1930s and '40s, once said that politics requires "supreme ingratitude." That's just the problem. Among those who run for office, ingratitude may not be common enough.

In many respects, the United States is positively fastidious about the influence of money on public officials. Federal employees cannot legally accept even trivial gifts from the public. They risk prosecution if they allow someone to pay for a meal or serve them food that costs more than $20 in the course of a year. During my brief sojourn in government four years ago, I had to listen to a hermeneutic discussion of the donuts-and-coffee exception to this rule (is a bagel a "donut" for purposes of federal law if not in the eyes of cream cheese?). Yet candidates are expected to raise large sums from private contributors, all the while pretending that their constant hunt for money does not influence their views of policy. We might as well make hypocrisy a formal requirement for elected office.

The scandals that have filled the newspapers and airwaves this past year are not just symptoms of the deeper problem; they are also a distraction from it. What a simple issue this would be if the malady could be cured by ensuring that money raised for tax-exempt purposes was kept from partisan political use and that no money came from foreign sources. Of course, those who break the law must be brought to full account. But the real scandal, in Michael Kinsley's aphorism, is what's legal—indeed, what's inevitable under pressures of political competition. And the real story is what hasn't been news: the triumph of money in the 1996 election and the increased financial asymmetry between the parties.

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A Majority of the Money

Recent reports from the Center for Responsive Politics and Citizen Action on the role of fundraising in the fall election describe a world that does not exactly correspond to our cherished image of popular sovereignty. In House races, the candidate who raised the most money won 92 percent of the time; in Senate races, 88 percent. In effect, we held two elections: the first, a competition for dollars; the second, for votes. Those who won a majority of the money were overwhelmingly likely to win a majority of the votes. To be sure, causation often runs the other way: Likely winners attract contributors. Thus the preponderance of money among the winners does not prove that money made the difference. But even in races that independent analysts rated toss-ups before election day, money was overwhelmingly correlated with victory. And in financial terms, many elections weren't remotely competitive. The fundraising winners often enjoyed so overwhelming an advantage—40 percent of House incumbents outspent their opponents at least ten to one—that the popular election was little more than a charade.

A seat in Congress does not yet carry tenure, but it comes close. According to the Citizen Action report, in the races for the House, only 19 challengers (5 percent) were able to raise more money than incumbents in the 381 districts where incumbents ran. In these 19 races, 8 challengers won, a success rate of 42 percent; but in the remaining 362 races, only 13 challengers won, a success rate of only 4 percent. Thus a challenger who lost the "money" election, as 95 percent did, had slim chance of prevailing in the people's election. This was scarcely surprising since winning incumbents raised an average of $761,000, 3 times the average of $221,000 raised by their opponents. It took an average of over a million dollars to beat an incumbent. Raising that much money is so daunting a task for most potential challengers that the possibility of competitive elections has been effectively nullified in the majority of districts.

In this column in our last issue, I noted that the total national vote for Republican and Democratic

candidates for the House in 1996 was almost even, but that Republicans retained a majority in the House because of the way in which votes were distributed. The Republicans won the great majority of tight races, while votes for Democrats were clustered in districts that they won by lopsided margins.* Now that we have the data on campaign spending, the explanation for the Republican success in tight races seems less ambiguous. Here, for example, are three key findings from the Citizen Action report:

- In the 60 congressional seats (41 of them previously held by Republicans) that the Cook Political Report rated "toss-ups" before the election, Republican candidates had an average of 42 percent more money to spend, raising an average of over $1 million per district. Democrats were able to win back only 12 of the Republican seats.
- Republican freshmen defending their seats in 1996 spent almost twice as much as their Democratic challengers.
- In the ten closest races won by Republicans, they held a 56 percent spending advantage.

Before 1994, contributions from political action committees (PACs) were split roughly in half between the two major parties, as congressional Democrats used the advantages of incumbency to offset the affinity of business for Republicans. But after Republicans took over Congress, they garnered two-thirds of PAC contributions. The old balance, never ideal since it depended on Democratic incumbency, has disappeared in congressional elections (although it remains at the presidential level because of public funding). The question now is whether reform can not only reduce the power of money, but also bring about a new and more equitable balance between the parties.

From the Bottom Up

Campaign finance reform is the precondition for progress on many other fronts, as environmental and other progressive organizations have increasing-

*In reporting preliminary data from the political scientist Martin Wattenberg, I described his criterion for close races as those decided by 2 percentage points or less. In fact, Wattenberg classified as close any race where the winner had 52 percent or less of the *two-party* vote. There were 32 of these races, and Republicans won 23 of them.

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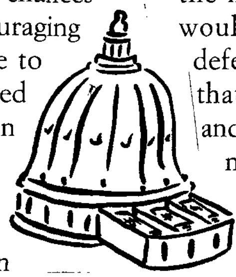
ly recognized. But in no other area is the path to reform so treacherous. Popular disgust with the present system may someday kindle a political firestorm. The immediate reality, however, is that the forces of reform confront not just the power of money, but also the entrenched self-interest of incumbents in blocking any legislation that lessens their chances of re-election. As if that were not discouraging enough, any reform measures also have to overcome or sidestep the obstacles created by the Supreme Court's decisions in *Buckley v. Valeo* and *Colorado Republicans v. FEC*, which have effectively made it impossible to limit campaign spending by barring any restrictions on "independent" expenditures—even, amazingly enough, by a candidate's own political party.



Moreover, the movement for reform is badly divided and seems likely to dissipate much of its energy in misguided initiatives. Some, for example, are campaigning for a constitutional amendment to undo the Supreme Court's precedents and permit Congress to limit expenditures on political campaigns—a dangerous measure that would invite future restrictions of political speech through overbroad interpretation. If Congress has the authority to limit spending, it may set such low limits that challengers cannot spend enough to become as well known as incumbents. Considering the history of incumbent self-protection, this hardly seems a hypothetical danger.

Other groups, such as Common Cause, want to pass the McCain-Feingold bill, which would eliminate PACs and offer candidates half-price TV advertising time in exchange for voluntary limits on spending and out-of-state contributions. But McCain-Feingold offers no public financing and would force candidates to devote just as much time and energy to fundraising as they do today (except that money would at least nominally have to come from individuals). Much business-related money already comes in the form of individual contributions; business would still be able to use corporate communications to drum up support for political candidates and to elicit contributions from employees concerned about pay and promotions. It's labor that most needs PACs to aggregate small individual contributions. The premise of McCain-Feingold is that individuals should contribute to political campaigns but groups should not—a departure from the basic premise of political pluralism that people should be able to organize as groups to participate in public life. Most likely, however, the whole effort would be pointless: If McCain-Feingold is passed, money will cut a channel right around it.

Since the election, many editorial pages have called on Congress to reform campaign finance, as if the majority were likely to pass a proposal that would give their opponents a better chance to defeat them. Speaker Gingrich has already said that he thinks electoral politics is underfunded and that limits on contributions should be eliminated; last year conservatives were making noises about eliminating public funds for presidential campaigns. If conservatives enact a broad campaign finance measure, they may well use it to take revenge on the AFL-CIO and create a new legal framework that is even more biased in their own favor.

If there is one proposal that might achieve bipartisan support and do some good, it's the idea of free or low-cost TV airtime. Like most people, politicians of both parties might agree that they deserve lower prices. Campaign finance has become a bigger problem today in large measure because of the escalating cost of television advertising. If we could cheapen the cost of campaigns, we could at least get the problem back to a smaller scale. Paul Taylor, a former *Washington Post* reporter, has formulated a proposal for a "broadcast time bank," which would provide candidates and parties with vouchers for airtime, financed by fees on broadcasters. This is public financing by other means and extends the one successful precedent we have—public funding of presidential campaigns.

In Taylor's proposal, however, the fees that finance vouchers would come from a surcharge on other political advertisements sold at prevailing rates, raising their cost by 50 percent. Taxing independent campaigns at that rate would discourage them, which might seem like a good idea. But it would create a dangerous precedent for discriminatory taxation of political speech that could be used to suppress dissenting opinion. Still, the basic concept of the broadcast time bank is sound.

But the chances of genuine reform passing this Congress are probably about as great as the proverbial camel passing through the eye of a needle. The more promising road to change is the difficult one that Ellen S. Miller described in our last issue

["Clean Elections, How To," January-February 1997]: the development of a grassroots movement in the states, focused on building support for the so-called Clean Money Option recently adopted by popular initiative in Maine. Unlike McCain-Feingold, Clean Money calls for full public financing of election campaigns. Like the existing system for financing presidential campaigns, it is voluntary for the candidates but once accepted includes spending limits. And rather than banning independent expenditures (which would be overturned by the courts), the Clean Money approach calls for matching public funds for a candidate whose opponent benefits from an independent campaign. The great virtue of Clean Money is that it frees candidates from the demeaning business of raising money, turns their attention back from contributors to constituents, and sufficiently equalizes political resources to encourage people without big financial backers to run for office. The only hope for such a solution is building from the bottom up.

Campaign finance reform shouldn't become a backdoor to even stronger incumbent protection.

Breaking the Power of Incumbency

But there is one further option that reformers need to consider: limiting congressional terms. Popular support for term limits reflects the fundamentally correct judgment that incumbents can too easily consolidate their positions and stifle change—for example, on campaign finance. Representatives who knew that their future as incumbents was limited might be more receptive to reforms that reduced the cost of campaigns and equalized resources.

Seven years ago in these pages ["Can Government Work?" Summer 1990], I wrote in support of term limits for House members only, arguing, "When the control of the House at some point in the future shifts to the Republicans—as it must someday—the Democrats will find themselves as locked out as the Republicans are today. Indeed, the Republicans would then add to their fund-raising edge all the advantages of incumbency that now redound to the Democrats." I suggested that term limits apply to the House but not the Senate in line with the Founders' vision of the House as the branch more responsive to changing public sentiment (although House-only term limits would indirectly spur greater competition for the Senate by denying House members the safe option of keeping their seats).

While proposals for term limits have come mainly from the right, there is no necessary relation between term limits and partisan interests. Some Democrats fear that in view of Republican financial advantages, they would lose a disproportionate number of open seats, but the main evidence for this concern comes from the South, where the partisan realignment has nearly run its course. Despite originally being introduced with conservative support, term limits this year were the key to Democrats' success in recapturing the California Assembly and Maine Senate.

In the form they are currently being proposed for Congress—lifetime limits of 6 or 12 years on service in the House and 12 in the Senate—term limits would too sharply restrict the accumulation of legislative experience. We need a middle ground that limits incumbency but does not preclude the election of experienced legislators. The answer, I suggest, lies in limiting the number of consecutive terms in the House while allowing for re-election after a "time out." A limit of four consecutive terms would significantly increase the number of open seats in any election year and make House elections far more competitive. Some former representatives could retake their seats—and many would, though perhaps only after beating new incumbents under more equal conditions.

If supporters of term limits want congressional approval, they will need support from the center and left. (As I write in late January, term limits are expected to come up for a vote and quick defeat in Congress.) A more modest, House-only limit on consecutive terms ought to be the basis of a compromise and acceptable to those of us who are generally allergic to constitutional amendments.

The system needs shaking up. A broadcast time bank, Clean Money, and limits on consecutive terms in the House would help revitalize the democratic ideals we claim to believe in. Such reforms might enable us to tell our children that ours is indeed a government of the people without the nagging sense that we are only repeating a useful fiction in the hope that it will some day come true.❑

IT ONLY LOOKS DEAD

After playing a key role in the 1994 midterm revolt, winning 19 of the 24 races it targeted, the National Rifle Association had few victories this past election, fostering the impression that it had fallen on hard times. But don't try telling that to people at the National Center for Injury Prevention and Control (NCIPC), a division of the Centers for Disease Control and Prevention (CDC) in Atlanta, who are all too aware of the NRA's power on Capitol Hill.

The NCIPC is about as unthreatening and inoffensive a federal agency you're likely to find, devoted as it is to injury prevention. But, because firearms have been known to injure people—and because the NCIPC has understandably chosen to treat the 40,000 annual fatal firearms-related injuries as a public health problem—the NRA views the agency as a bunch of jack-booted scientists, hell-bent on restricting Americans' Second Amendment rights.

This past fiscal year, the NCIPC devoted $2.6 million of its $49 million budget to studying the role of firearms in causing and preventing injuries, much as it devoted funds to examining the roles of motor vehicles or playgrounds in injury cause and prevention. But when the NCIPC requested the same $2.6 million for a firearms-related injury study for the coming fiscal year, the proposal encountered stiff resistance from the NRA's congressional supporters.

In the House Appropriations Labor and Health Subcommittee, Republican Congressman Jay Dickey of Arkansas sought to zero out the study's funds, but the subcommittee's chairman, Illinois Republican Jon Porter, staved off Dickey's challenge. Undaunted, Dickey pressed his case before the full House Appropriations Committee, where 19 of the committee's 32 Republicans, including himself, had received campaign contributions from the NRA. While many Democrats were initially hostile to the idea of cutting the $2.6 million from the NCIPC's budget, they relented when Republicans proposed to transfer the money to a rural health program, a pet cause of the ranking member, Wisconsin Democrat David Obey. (The rural health program is administered by the Health Resources Services Administration, a public health agency completely separate from the CDC.) Democrats also acquiesced when Republicans inserted unusually detailed language into the NCIPC's appropriations package, instructing the agency that it could undertake scientific work on firearms-related injuries but could not promote or advocate gun control. Of course, the NRA was alone in deeming the agency's previous work as unscientific advocacy.

The Senate gave the NCIPC a modest reprieve by restoring $2.6 million to its appropriations package, but the Senate specifically earmarked the money for studying traumatic brain injuries. If the NCIPC wishes to continue its study of firearms-related injuries—America's second leading cause of injury deaths—it will have to find the funds in its already squeezed discretionary budget, funds it most likely does not have. What the NCIPC does have, unfortunately, is a keen understanding of just how very alive the NRA still is.

HIGH STAKES

President Clinton and both Democratic and Republican congressional leaders received high praise this past summer when, over the strenuous objections of the gaming industry, they created a nine-member commission to study the impact of legalized gambling. Apparently, the $4.5 million in contributions that gambling interests had poured into congressional and presidential campaigns and into the soft-money accounts of both parties since 1991 were not enough to defuse the threat of more federal regulation of legalized gambling. For once, it seemed, politicians had ignored the money and had stood on principle.

Or were they just upping the ante?

Since it became apparent that President Clinton, House Speaker Newt Gingrich, and Senate Majority Leader Trent Lott would each appoint three members to a gambling commission, gambling interests have increased the pace of their giving to both parties. Since July, gambling interests have dropped more than $1.5 million into both parties' soft-money accounts, with about $700,000 going to the Republicans and $850,000 to the Democrats, according to preliminary FEC reports.

The largest single contribution since the announced creation of the commission comes from Mirage Resorts, Inc. of Las Vegas, which gave $150,000 to the National Republican Congressional Committee on October 11. The Democrats, in October, received their largest single bundle in four contributions from the Mashantucket Pequot Nation totaling $219,000.

The funny thing is, the legislation creating the commission called for appointments by October 2. For reasons not entirely clear, Clinton, Gingrich, and Lott ignored this deadline. Perhaps they used the extra time to mull over their choices. Then again, maybe they didn't want to close the betting windows while the gambling industry was in such a generous mood. Either way, this postponement amounted to some $750,000 in additional soft-money contributions from the gambling industry in October and November alone, with money from subsequent months still unaccounted for because of later FEC filing deadlines.

At press time, some three months after the original deadline, five members of the commission have been appointed, with President Clinton's three slots still empty and House Minority Leader Richard Gephardt's one appointment—granted to him by Gingrich—yet to be made. So long as the commission's makeup remains uncertain, don't be surprised if the soft money continues to flow in.

—*Jason Gray Zengerle*

Why Did Clinton Win?

Shortly after last November's election, two prominent Democratic pollsters offered opposite interpretations of how to read the results. **Mark Penn**, who emerged as President Clinton's favorite pollster working closely with strategist Dick Morris, conducted a postelection survey for the Democratic Leadership Council. Not surprisingly, Penn found that President Clinton had won because he had followed the DLC recipe. Penn wrote that "Clinton won the election because on every issue that the Republicans hoped to dominate—balancing the budget, welfare, crime, immigration, and taxes—Clinton staked out a strong centrist position early on."

For example, the poll found that "88 percent of voters said they would favor President Clinton if he made a balanced budget the top priority of his second term." And "more than 85 percent of voters would favor making Social Security and Medicare reform his second priority." Fifty-seven percent of voters, according to Penn, identified Clinton as "a different kind of Democrat," while a majority of voters thought the Democratic Party as a whole hadn't changed. House Democrats, Penn declared, failed to regain a majority because they "failed to join Clinton in the center, demonstrating fiscal moderation. . . . Democrats, egged on by the labor unions, focused relentlessly on wage stagnation and the perceived lack of good jobs. They systematically deprived themselves of the greatest edge the party controlling the White House can have—a successful economy."

Meanwhile, Penn's principal rival, pollster **Stanley B. Greenberg**, released his own postelection survey, conducted for the Campaign for America's Future, a new progressive organization that aims to become a kind of counter-DLC. Greenberg's poll told a very different story. Most voters did not support Clinton because of his stands on entitlement reform, budget balance, or shrinking government. Rather, it was his defense of traditional Democratic programs. According to Greenberg, 59 percent of those polled cited Clinton's "support for domestic programs (education, Medicare, and the environment) as the prime reason for their vote. Overall, about 31 percent supported Clinton because of "centrist" positions (moderation, welfare, balanced budget, and crime)."

The Greenberg/Campaign for America's Future poll also found that "downscale" voters—those earning under $50,000 and those without college degrees—were key to Democratic gains. According to the Greenberg poll, it was mainly pocketbook issues—complemented but not replaced by "values" issues—that attracted new voters to Clinton. By implication, Democrats do better when they rouse less-affluent voters with pocketbook issues and with values issues that have pocketbook overtones, such as work and family.

To some extent, of course, these rival groups were able to divine these competing interpretations of the election because of the way they posed questions. For example, on Medicare, Penn asked: "In thinking about the necessary changes to Medicare, do you think it would be better to stay within the existing system—for example, raise premiums and cut benefits—or would it be better to move toward more structural changes to Medicare like getting the private sector involved?" Since preserving the existing system was defined as raising premiums and cutting benefits, it is hardly surprising that 71 percent said they preferred (undefined) "structural changes" rather than benefit cuts and higher charges.

Still, creative wording notwithstanding, the debate between DLC/Penn and CAF/Greenberg analyses mirrors almost precisely the debate dividing the Democratic Party. Is the road to the party's recovery to the center or to the left? We invited Penn and **Will Marshall** of the Progressive Policy Institute, the think tank affiliated with the DLC, to continue the debate with Greenberg and **Robert L. Borosage** of the Campaign for America's Future. Here is the result.

—Robert Kuttner

Will Marshall

Bill Clinton's re-election not only broke the Republicans' so-called "lock" on presidential elections, it foreshadowed the emergence of a new progressive majority in America. For left-leaning Democrats, however, there's a big hitch: The new progressivism aims not, as they would like, at European-style social democracy, but at a new political synthesis that decentralizes decisions, injects choice and competition into the public sector, respects the prerogatives of civil society, and replaces welfare-state paternalism with a government that equips people to take care of themselves.

In trouncing an estimable opponent, Clinton joined Woodrow Wilson and Franklin Roosevelt as the only Democratic presidents in this century to win back-to-back elections. The parallels are intriguing: Wilson and FDR were pivotal figures who transformed their dispirited and rudderless party into a vital instrument of reform and national leadership. Clinton also has a historic opportunity to change the course of U.S. politics by converting Democrats from a party that defends narrow interests and outdated programs into a modernizing force in the nation's public life.

The election vindicated Clinton's "New Democrat" renovation of the progressive agenda, a project that is expanding the party's appeal even as it raises hackles among liberal elites. Clinton set the tone for a mold-breaking campaign by declaring, in January, that the "era of big government is over." Boosted by a strong economy, which he linked to White House policies of fiscal restraint and trade expansion, Clinton stressed such social and moral concerns as drugs and tobacco, juvenile crime and television sex and violence. In August, Clinton overrode fierce liberal opposition to sign a landmark bill fulfilling his key 1992 campaign pledge to "end welfare as we know it."

Liberals are certainly right to point as well to Clinton's defense of Medicare, education, and environmental protection as key factors in his success. What they ignore, however, is the predicate Clinton himself never failed to mention on the hustings—that he would protect these programs within the constraints of fiscal discipline. In short, Clinton's winning formula in 1996 was a canny synthesis of traditional Democratic commitments and New Democrat innovations. While the former appeals to core Democratic constituencies, the latter has greatest potential for enlarging the party's base.

In a postelection study for the Democratic Leadership Council (DLC), Mark Penn, a key Clinton strategist and pollster, found that voters recognized and explicitly endorsed Clinton's New Democrat agenda.

> It is specifically this distinction between Clinton and what the people view as traditional Democratic ways of doing business that made voters—many of whom had not voted for Democratic presidential candidates in the past—willing to vote for him in 1996, even as they were voting against Democratic House candidates.

Though drawn to Clinton's new ideas, voters were warier of congressional Democrats, whom they saw as more likely to cling to old-time liberalism. Although voters described Clinton as a different kind of Democrat, by a margin of 57 to 37 percent, they also said, by a margin of 54 to 41, that the Democratic Party is pretty much the same. Penn notes that on issues where Clinton successfully staked out the center—balancing the budget, crime, and welfare—Clinton's approval rating was nine or ten percentage points higher than that of House Democrats. He concludes:

> Had the Democrats moved with the President toward more mainstream positions, they would have retaken the House. Their lesson for the future is clear: earn credibility by proving fiscal responsibility and centrist moderation. Only by establishing these more centrist credentials will the Democrats acquire the credibility they need to be heard on the rest of their issues, such as education, the environment and protection of entitlements.

The Left's Interpretation

No sooner were the ballots counted when a new left-labor group, the Campaign for America's Future, came out spinning. Its postmortem, based on a poll by former Clinton pollster Stan

Greenberg, held that Clinton won primarily because he defended Medicare, education, and the environment; his "centrist" stands on other issues were secondary.

To a certain extent, this is true—but only because Clinton succeeded in defining the ground on which the election was contested. The real key to Clinton's victory was his strategy of seizing the political center abandoned long ago by liberal activists and elites and more recently by the new Republican majority in Congress. This forced Bob Dole to the right while reassuring independents and suburbanites unnerved by the Gingrich "revolution" that they could vote for a Democratic president without giving him a mandate for going back to big government liberalism.

Had Clinton heeded his leftish critics, had he failed to endorse the goal of a balanced budget, had he saved the roundly despised welfare system, had he ceded crime and other social and family concerns to his conservative opponents, the Republicans once again would have waged a presidential campaign on familiar and favorable terrain. Democrats' defense of Medicare and domestic programs would have appeared in an entirely different light—as more evidence that the party remains bent simply on preserving the bureaucratic status quo. Instead, Senator Dole grew visibly frustrated as the old GOP attack lines and supply-side elixir failed to work their customary magic. Republicans tried to cast Clinton as a conventional liberal, but the public simply wouldn't buy it.

Clinton's preemption of issues that Republicans used to control elicited predictable squawking on the left about abandoning principles and "moving to the right." In fact, Clinton and the New Democrats are bringing the party home to a politics grounded in the moral outlook as well as the economic aspirations of the "forgotten middle class."

Sooner or later, the party's left will have to resolve its ambivalence on questions of values. Opinion surveys and election results alike confirm that Americans are worried at least as much about social as economic problems. Nonetheless, the labor-left axis insists that the party should dwell exclusively on the tried-and-true themes of class warfare, now rechristened as "economic populism." Afraid of being accosted at the cash machine by some remorseless juvenile with a Tech-9? Concerned that the breakdown of marriage and family is yielding a bitter harvest of damaged and vulnerable children? These, we are instructed, are Republican issues; real Democrats talk about stagnant wages, job insecurity, and corporate perfidy.

And we really should talk about these things. But the left's economic reductionism and pessimism can only narrow the party's appeal. This approach discounts Clinton's success in restoring economic confidence and links the party's success to economic misery. It trivializes citizens' well-founded concerns about the social and moral climate in which they raise their children. And it patronizes working Americans by casting them as victimized proles moved only by appeals to class resentment and material self-interest.

The Emerging Coalition

If a new progressive majority is aborning, what are its critical elements? Where is its social base?

By blunting traditional GOP advantages, Clinton was able to win back for Democrats key voter groups like independents, married voters with children, and middle-class families in general, Penn reports. For example, Clinton scored significant gains among people with annual incomes between $30,000 and $75,000—precisely the average working families whose past defections from the party fueled the GOP ascendancy in presidential politics after 1968.

The enormous margin Clinton rolled up among women voters provides a striking illustration of the New Democrat synthesis at work. Women—suburban and younger women especially—strongly endorsed Clinton's defense of key federal programs against the GOP onslaught. At the same time, they backed fiscal discipline, vigorous anticrime efforts, and especially Clinton's table-turning discourse on family values, in which he emphasized ways in which government can help parents shield their children from harmful influences, from drugs to school disorder to the marketing of sex and violence.

In addition, Clinton tallied big gains among Asian and Hispanic voters, perhaps in reaction to the Republican Party's restrictive stands on social benefits for legal immigrants and on immigration generally. "In thinking about the future, the Democratic party needs to continue to consolidate its support among the middle class and to energize support among its new key constituencies—namely, youth, women and Hispanics," concludes Penn.

To build a new progressive majority, it is imperative that Democrats build a constituency in the new economy. Just as industrial workers formed the backbone of the New Deal coalition, the party needs to attract the knowledge workers who are emerging as the dominant force in the information economy. Dubbed "wired workers" by Morley Winograd and Dudley Buffa, they transcend the old "white collar, blue collar" dichotomy. Whether they work in factories or offices, wired workers use computers, have more flexibility in deciding how to do their jobs, and often work in unstructured settings and as part of teams.

According to recent research by Winograd and Buffa, wired workers now constitute 51 percent of California's workforce and 31 percent of its electorate, and their ranks are growing rapidly. In many respects, wired workers look like the quintessential New Democrats: They are optimistic about their economic prospects; they are for choice and competition in education and against race and gender preferences; they are impatient with the ideological ax-grinding of the left-right debate; and, they favor a smaller, nonbureaucratic form of government activism that equips people to help themselves.

Whereas the left's economic story mainly conveys fear of change and animosity toward U.S. businesses—usually depicted with all the subtlety of a Snidely Whiplash cartoon—progressives must craft a new narrative that appropriates the new symbols, lexicon, and techniques of the information age. Democrats must remain especially attentive to the inequities and insecurities generated by today's rapid economic changes. But basic electoral math dictates that a new progressive majority must include upwardly mobile Americans as well as those caught in the downdraft of the global economy.

> Did the 1996 election vindicate Clinton's "New Democrat" renovation of the progressive agenda?

In short, Democrats need to develop a new political economy, a new social compact, and new ways of governing tailored to the new conditions of postindustrial America. From its stress on market-led growth and open trade to its attempts to redesign government and anchor social policy in the mainstream values of work, family, and mutual responsibility, the Clinton administration has made the first, tentative steps in the right direction. It has established important beachheads in the struggle to bring about structural changes in government and the nation's policy agenda. These include:

- Expanding public support for the working poor, through a $21 billion increase in the earned income tax credit.
- Cutting in half the federal deficit as well as slowing spending growth.
- Injecting choice and competition in public education through charter schools.
- Helping communities defend themselves through community policing and more police on the streets.
- Replacing the federal entitlement to welfare with an obligation to work.
- Stimulating community initiative and economic development in the inner cities.
- Reinventing government, including a sharp reduction in the federal workforce.
- Linking increased college aid to national service through the AmeriCorps initiative.
- Expanding trade and assisting emerging democracies.

The party's challenge now is to steadily enlarge these beachheads—to move these progressive innovations from the margins of a big, bureaucratic government to the center of a leaner yet more dynamic public enterprise that enables people and communities to tackle their own problems.

In *Building the Bridge: 10 Big Ideas To Transform America* (published this January), the Progressive Policy Institute elaborates a new progressive governing philosophy and offers large policy prescriptions for dramatically transforming how government works to advance public purposes in the information age. Here, for example, are three tasks that progressives should tackle in the second Clinton term:

First, wean U.S. businesses from dependence on government subsidies. In a January 1994 study for PPI, economist Robert Shapiro identified and challenged the rationale for hundreds of billions of dollars in federal subsidies for U.S. industries. Former Secretary of Labor Robert Reich subsequently endorsed the study and called for ending "corpo-

rate welfare." An odd-couple pairing of environmental activists and the free market Cato Institute next joined the chorus. This is an issue on which new and old Democrats can agree and perhaps even win the support of honest conservatives who don't conflate being pro-market with being pro-business.

President Clinton and congressional Democrats should adopt Shapiro's practical suggestion for creating an independent panel, modeled on the highly successful military base-closing commission, to examine industry subsidies—both direct spending and indirect tax subsidies—and present Congress with a list of eliminations and cutbacks for an up-or-down vote. PPI estimates such an effort could yield as much as $20 billion a year in savings, which should be split evenly between new public investments and deficit reduction.

Does the end of big government mean the end of big ideas?

Second, adopt a "reform and invest" strategy that links government reform to empowering U.S. workers. David Osborne, whose seminal work inspired the Clinton-Gore "reinventing government" initiative, proposes that the effort be pushed to a second, more radical stage. Drawing on the success of government reform efforts in Britain and Australia, he calls for converting large federal agencies that deal directly with the public—such as the Patent Office and the U.S. Forest Service—into semi-autonomous "performance based organizations" (PBOs). Agencies would get the flexibility they need to improve performance in return for being held accountable for results. Osborne estimates that PBOs could achieve productivity gains of 3 percent a year (a common benchmark in the private sector), saving the federal government $25 billion a year.

That would be more than enough to finance President Clinton's array of educational initiatives: tax credits for a thirteenth and fourteenth year of schooling, deductions for college tuition, and his previously proposed "GI Bill" for American workers that was derailed by right-wing opposition in the last Congress. That measure would consolidate federal job training programs for dislocated workers and convert the money into vouchers workers could use to buy education, training, or other employment services from private vendors. To encourage all workers to develop their own intellectual capital and manage their own job security, Osborne further proposes that Washington create "Career Opportunity Accounts"—tax-free savings accounts that would be used to upgrade skills.

Third, lay the groundwork for entitlement reform. Eventually, Democrats will have to get serious about reforming Social Security and Medicare so that these massive programs don't default on their obligations to future retirees, impose a crushing tax burden on tomorrow's workers, or crowd out other urgent public needs.

Yet talk of structural reform induces self-righteous conniptions among the party's old guard, which seems equally incapable of acknowledging structural flaws in the programs or imagining any change that would not strip them of their universal or "solidaristic" character. Is it conceivable that poor people could actually reap more in retirement benefits if some portion of their Social Security taxes were invested in private savings accounts? We may never know, because their self-appointed tribunes are too worried that someone on Wall Street might make money too.

Die-hard defense of troubled entitlement programs also conflicts with an urgent progressive goal: increased public investment in education, health care, antipoverty initiatives, and infrastructure. Since the early 1970s, the exponential growth of Social Security, Medicare, and Medicaid has dramatically squeezed these so-called "discretionary" accounts of government. In the President's last budget, for example, nondefense discretionary spending was frozen at $275 billion, while the entitlement programs were allowed to rise from $875 billion to $1.2 trillion in 2002. Of course, the contradiction between shielding entitlements from reform and expanding public investment disappears if, in lieu of constraining the former's growth, liberals declare themselves ready to raise taxes substantially, slash defense spending, or expand the federal deficit.

As usual, the public takes a more practical and nuanced view of the issue than the ideologues. Penn's survey found that people are surprisingly receptive to major entitlement reform: Given a choice between "staying within the existing sys-

tem" or implementing "more structural changes" that include "getting the private sector involved" in Medicare and "letting people control portions of their own retirement savings" in Social Security, they overwhelmingly chose the more dramatic structural changes.

How to square this public realism with liberal assertions that unyielding defense of the current structure and benefits of Medicare and Social Security is the Democrats' political trump card? One obvious explanation is that Americans know that the entitlement programs have to be modernized in order to be preserved for the long haul. They want Democrats to do the job, because they quite reasonably don't trust Republicans.

The new progressive agenda includes much more. A top priority is moving stepwise toward a universal system of private medical insurance. Another imperative is to convert our public school system from a public monopoly that offers wildly varying quality to a pluralistic system that offers uniformly high standards within a setting of school choice and diversity. In *Building the Bridge*, PPI also offers new ideas for reducing inner-city poverty, revamping America's archaic criminal justice system, fortifying families, launching a "second generation" of environmental activism, restructuring our defense and foreign policy institutions, and more.

As this list suggests, the end of big government need not mean the end of big ideas. At this pivotal moment, what America needs is not a politics of modest ambitions, crimped vision, and incrementalism, but a contemporary version of the "bold, persistent experimentation" that was FDR's greatest legacy.

Robert L. Borosage and Stanley B. Greenberg

What did voters say in the election of 1996? What are their priorities and expectations in returning Bill Clinton to the White House and Republican majorities to the Congress?

These are not academic questions. What leaders in the White House and Congress conclude about the meaning of the election and the mandate of the voters will frame policy and politics. No wonder the struggle over what voters said is often as contested and bitter as the election itself.

Divining any clear mandate from the election in 1996 is far from easy. With relative peace abroad, and a growing economy and declining unemployment at home, anger at Congress and politicians receded. Yet turnout in this election plummeted to the lowest levels since 1924, in partial reflection of a listless campaign that grew sour at the end. Both the President and the Republican majority in Congress were returned to office with less than half of the vote.

Still, some basic conclusions about what voters want can be made about the election based on common sense, exit polls, and our own poll, by Greenberg Research for the Campaign for America's Future. On core issues our conclusions are dramatically at odds with many of those drawn by Mark Penn from his poll for the Democratic Leadership Council (DLC).

Not Newt

This election was framed by the public reaction to the Republican "revolution." During the congressional term leading up to the election, the new, Gingrich-led Republican majority tried to make dramatic cuts in government programs and regulations, while passing tax cuts primarily of benefit to the wealthy. The Democratic response to that situation, as voters came to see it in 1995, framed the campaign: Republicans were voting to cut Medicare and Medicaid, education, and the environment to pay for tax cuts for the rich, while Democrats were fighting to keep an extremist Congress from doing harm to people. Democrats in Congress, not the White House, took the lead in framing that message.

The President's political revival did not occur until he rejected the advice of conservatives of the party and denied Republicans a deal on the budget. Rather, it came when he chose to fight and defend broad-based programs such as Medicare and Medicaid. It was at this point—and not six months earlier when the administration advanced a balanced budget and reached out to Speaker Gingrich—that his job approval ratings began to rise. Only when Clinton stood up to Gingrich and withstood the shutdown of the government did he gain a double-digit lead in the polls. After that

point, Clinton was never seriously threatened by Republican challengers.

The President's popularity continued to rise through the spring and summer, as the economy strengthened further and he spoke forcefully for strengthening the family. He got heard on those issues, even as he vetoed two Republican "welfare reform" bills, re-affirmed affirmative action, and vetoed late-term-abortion legislation. Later in the fall, when Clinton and Dole clashed over the fundamentals of the government role in education, Clinton gained support with younger voters, as the education issue was nationalized for the first time.

More than two-thirds of the voters made up their minds early. Those making the early decision tended to favor the President. Those deciding in the last days of the campaign, bombarded by headlines about Indonesian money, tended to swing Republican.

Republicans kept their majority in the Congress—barely—at the price of abandoning their revolution. Every part of the Republican agenda was repudiated in the election. The Christian Coalition agenda was kept locked in the closet at the Republican convention. Republican candidates scrambled to distance themselves from Newt Gingrich and tried to present themselves as sensible reformers who only meant to save Medicare and voted for the minimum-wage increase, health care reform, and the Clean Water Act, and who pumped billions into education (all done in the last frantic days of Congress prior to adjourning to campaign). Even the 15 percent tax cut, the centerpiece of the Dole campaign, had little appeal. The Republicans ended the election in disarray.

The America's Future poll confirmed that voters supported Bill Clinton (and Democrats in Congress) because of his stands on education and Medicare. He also benefited from his support of family values and parents. In the America's Future poll, twice as many respondents cited Clinton's defense of domestic programs (Medicare, education, and the environment) as his positioning on centrist issues (welfare, balancing the budget, and crime) when explaining what caused them to vote for him. New Clinton voters—the swing bloc that supported Clinton this year but not in 1992—also cited Clinton's defense of domestic programs as most important in their vote decision. This is not just a story about "base voters," as Paul Starr mistakenly characterized the American Future study in these pages ["The Clinton Presidency, Take Three," January-February 1997]. It is a story about the critical bloc of swing voters needed to win.

Mark Penn's own survey for the DLC underscores this fact. Penn asked respondents to rate how important various Clinton accomplishments were to their vote. Sixty-five percent of respondents to the DLC poll did say that the fact that Clinton's budget plan had produced a "60 percent decrease in the deficit" was "very important" to their vote. But 11 other Clinton accomplishments were deemed even more important. Sixty percent of respondents said that his signing welfare reform was very important—but 15 other accomplishments ranked higher than that. According to network exit polls, an overwhelming majority of the relatively small number of people who cared most about balancing the budget cast their votes for Bob Dole.

A Class and Gender Divide

Who made the difference for Clinton and the congressional Democrats? Both exit polls and the Campaign for America's Future poll show that the new Clinton voters and the new presidential year voters, who provided the President his margin of victory, were overwhelmingly the people most alarmed by the Republican assault on social programs and most receptive to the President's regulatory initiatives in support of the family. These swing voters are starkly defined by class and education: More than three-quarters were noncollege-educated, low- and middle-income people with household incomes under $50,000 a year. It is the downscale, not the upscale, electorate that gave the Democrats the opportunity to win.

Clinton and the Democrats also enlarged their support among married and single women, especially noncollege-educated working women. Democrats have been making steady gains with single women since the 1980s, but gains among married voters are new. Clinton and the Democrats ran very strong with young voters and Hispanics, who were particularly aggrieved by Republican immigrant bashing. The combination of Medicare, education, the environment, and family values proved very important to Democratic gains among all these groups.

Noncollege-educated voters—the voters who have disproportionately suffered declining incomes and growing insecurity in the new economy—are the most volatile portion of the electorate. They turned out and voted in large numbers for Bill Clinton in 1992, stayed home and turned against Democrats in 1994, and—although many stayed home in 1996, providing the source of much of the fall in turnout—returned to vote for Democrats in 1996.

Neither the President nor Democrats in Congress made gains among the upscale electorate. One of the more puzzling assertions of the DLC report is that the President made his biggest gains with suburban and "middle-class" voters. Penn's report includes no data of his own on the subject, selectively using exit poll data instead. Unfortunately, he omits education in his breakdown: Clinton made his biggest gains among high school-educated voters and he lost ground with college graduates. Penn fails to note that Clinton's biggest gains came from voters in households earning $15,000 to $30,000 a year and that Clinton made no gains with voters earning above $50,000.

> Which group of voters made the difference for Clinton in 1996?

The President was well positioned to appeal to working middle-class voters. For those piecing together two, three, or four jobs in a family to make ends meet, economic growth that produces better jobs is important. The President's focus on education touched deep concerns about the future of their families. Fighting to defend Medicare, education, and the environment reflected core values and concerns. His stands on values, from school uniforms to V-chips, from cops on the street to moving people off of welfare, appealed to working-class voters' concerns as parents. His support of a balanced budget and tax cuts showed he understood that government needed to get its own house in order and respect the people who pay their bills.

The Future Agenda

When we asked voters what they most wanted from the new Congress, their answers showed them to be concerned mostly about three broad policy areas: protecting Medicare and Social Security against major cuts, achieving a balanced budget, and guaranteeing health insurance to all Americans (a priority ignored by all candidates in 1996). Education initiatives ranked in the middle range probably because the proposals themselves did not seem bold enough, but we know from the election that education matters a great deal also.

Our survey reveals a public committed to balancing the budget and sensibly skeptical of a government that it sees as controlled by special interests. Dramatic majorities support large investments in education, paid for by raising taxes on the wealthy, cutting corporate welfare, or issuing investment bonds. A majority would accept delaying the target date for a balanced budget if the earlier date jeopardized other priorities, particularly investment in education.

The Penn survey employed extraordinary wording to suggest that balancing the budget and major entitlement reform are the highest priorities of the public. While Penn focuses on the 88 percent of respondents who feel more favorably about the President because "a balanced budget is a top priority," his report does not mention the wording of the question, which reads: "Suppose President Clinton made the top priority of his second term balancing the budget to keep the economy strong, interest rates low, and create new jobs." Why wouldn't respondents say they wanted these things, assuming they were attainable? But even with this loaded wording, six other items scored as higher priorities, including "insuring the safety of Medicare."

The misreading of the working- and middle-class voters, the over-reading of the balanced budget issue, and the neglect of Medicare in the Penn report leads to a misleading set of conclusions about entitlement reform. The report argues that voters overwhelmingly think there is a crisis with Medicare—but it makes little use of the DLC survey's finding that the majority would prefer "small steps" to avert a crisis, rather than attempting "major reform immediately." The report emphasizes that only 17 percent want to "stay within the existing system" on Medicare. Again, however, it does not highlight the wording of the question, which read in part: "stay within the existing system—for example, raise premiums and cut bene-

fits." Little wonder that, presented with this example, people might prefer structural reforms. In fact, the surveys for both the DLC and the Campaign for America's Future show voters place a high priority on avoiding major cuts and insuring the safety of Medicare.

> The central question is one of mission: Whose interests should progressives represent?

The dynamics of the new economy remain important to voters. While the public is optimistic about the current economy, deep economic insecurities remain. Noncollege-educated voters in particular are deeply concerned about their ability to afford education for their children, to pay for health care, and to provide for their retirement. They strongly support measures designed to hold corporations accountable and are markedly skeptical of the value of free trade agreements. While the President, as Penn pointed out, was able to "ride the wave of good economic news" in 1996, that is hardly sufficient for the longer term.

What our survey suggests the people want is clearly far removed from an elite centrist agenda consisting primarily of major entitlement reform, balancing the budget with deep cuts in domestic programs, and free trade agreements.

The President and the Democrats in Congress

Penn and the DLC argue that Bill Clinton won and the Democrats in Congress lost because the President was seen as a "different kind of Democrat," while the Democrats in Congress were not. Penn argues that "people were unwilling to return the Democrats to power in the House" because "Democrats could not be relied upon to work within the limitations of a tightening budget."

But there is precious little in the Penn data or elsewhere to support the idea that, were it not for their excessive liberalism, the Democrats would be in control of Congress today. Penn's own data show that 39 percent of the electorate considered both the President and the Democrats to be "traditional tax and spend liberals." And this says nothing about how voters viewed the specific Democratic candidates in their own districts. Penn makes no mention of his remarkable findings that 64 percent of the public approved of how Democrats in Congress handled crime, 59 percent approved of their approach to balancing the budget, and 56 percent approved of their stance on welfare.

So why didn't the Democrats win back the House when Clinton was re-elected? Since 25 of the Republicans won with only 51 percent of the vote or less, a lot of things could account for their victory. Money, for example: Democrats were outspent by about seven to one in many of the closely contested races that they lost. Campaign finance scandals, for another: The last two weeks of headlines about the Democratic fundraising scandal hurt both the President and the Democrats. And the signing of welfare, minimum-wage, and health care reform legislation in August rehabilitated the Republican Congress and helped counter the argument that they were extremists who got nothing done.

The Real Choice

These differences in interpreting the election relate to fundamental choices for Democrats. The Penn study points the Democratic Party toward the college-educated, upscale voters in the suburbs. This strategic view emboldens conservatives to contemplate privatization of Social Security and major changes in Medicare and to neglect an economic program that could genuinely help working Americans prosper in an era of radical change. It obscures the income stagnation, growing inequality, and challenges of the new global economy that are so central to the voters that gave Bill Clinton his second term.

In short, Penn's report makes for bad policy and bad politics. The 1996 election showed that Democrats' fortunes are tied, and indeed should be tied, to the concerns of working Americans, the noncollege-educated, and middle- and lower-income working people, for whom the past decades have been particularly harsh and who are struggling to make things better. Democrats should be putting forth an agenda that protects their interests and affirms their values—starting with investments in education, protection of retirement security, affordable health care, reductions in corporate

welfare, and an economic policy that makes sense for working people. Democrats should be putting forth an agenda that supports the parents struggling to manage work and home while protecting their children. That is the message of 1996 and, we believe, the mission for the Democratic Party.

Mark Penn Responds

Contrary to what Robert Borosage and Stanley Greenberg say, downscale voters are *not* the center of the electoral universe. Greenberg continues to cling to this limiting and ideologically driven thesis in interpreting his poll results, neglecting both the President's message and the election returns.

Exit polls showed that Clinton's vote share decreased among the lowest class of income-earners by a statistically insignificant 3 percent, and increased among every other class. In fact, the President won all but the highest income group. Since the last election, he gained 7 to 8 percent among the lower-, middle-, and upper-class voters. Moreover, Clinton enjoyed similar vote share gains across all groups of women voters, receiving the same percentage among both the college educated and noncollege educated.

Clinton transcended one class, one education group, or one age group in putting together his winning coalition. During the budget fight, for example, Clinton's message was not framed as Greenberg suggests it was: "Republicans were voting to cut Medicare, Medicaid, education, and the environment to pay for tax cuts on the rich." This was the losing class-warfare argument that congressional Democrats have used so unsuccessfully for years. The President instead focused his message on "balancing the budget in a way that protects our values and priorities: Medicare, Medicaid, education, and the environment," and he included $80 billion in tax cuts in his own budget proposals.

Clinton's approach worked, completely reversing people's attitudes on the budget issue. By the end of the budget fight, poll subjects by a margin of ten points said Clinton would do a better job balancing the budget than the Republicans in Congress. Clinton's support for balancing the budget—not opposition to "tax cuts for the wealthy"—was the crucial factor in providing a credible alternative to the Republicans, which is exactly what congressional Democrats had failed to provide during the 1994 midterm elections.

The budget fight was an important igniting element of the campaign, but it was not the only thing—as Greenberg suggests it was—behind Clinton's high ratings. In fact, many of the seniors, especially men, originally attracted to Clinton by his stance on Medicare, drifted back to Dole (who ran a campaign based on World War II themes) as the immediacy of the budget fight passed. But despite these defections, the President's emphasis on values and on economic progress brought in large numbers of women and younger voters who kept his standing just as high.

It should also be pointed out that the touting of economic progress, which Greenberg now acknowledges was an important factor in the spring, was heatedly opposed at the time by proponents of the downscale-voter thesis, who argued that calling attention to economic growth would be an abandonment of these voters.

Greenberg says that the swing voters were defined by class and education: "Over three-quarters were noncollege-educated, low- and middle-income people with household incomes under $50,000 a year." But this is nothing more than a description of the demographics of the American electorate! The important questions are: Who are the *new* voters? And what drove them?

Many of the new Clinton voters were downscale, but they were not driven by class-based concerns. New voters were drawn disproportionately from three groups: Hispanics, young people, and women. Hispanics and young people are heavily downscale—Hispanics because they are our newest immigrants, and young people because they are just beginning to earn a living. But these groups' votes were motivated by concerns about Republican anti-immigration efforts and by Clinton's generational appeal, not by class interest. And the remaining new voters—mostly women—were spread across all classes.

On entitlements, Greenberg ignores the reality of the choices. The current system is not fiscally sound. The choice between keeping the system with minor alterations and making structural reforms is a real one—and the people we surveyed overwhelmingly chose

structural reform. As with health care, the prevailing attitude supports proceeding on a step-by-step basis toward major reform.

Clinton won the downscale voter in both 1992 and 1996, but the critical difference this time around is that he reached much higher and deeper into the upper and middle classes, eliminating the ceiling that the downscale-voter thesis puts on Democratic electoral chances. It is the incremental addition of these new voters—who see his leadership consistent with fiscal responsibility, family values, and economic growth—on top of the traditional Democratic constituencies that made all of the difference in the outcome.

Borosage and Greenberg Respond

We are delighted that Will Marshall concedes up front that Bill Clinton won in 1996 because he synthesized "traditional Democratic commitments and New Democratic innovations." The DLC's official press release about the election results never once mentions Medicare or the President's defense of domestic programs, both "traditional Democratic commitments." If it took *The American Prospect* to achieve such a concession, then this exchange was well worth it.

But while acknowledging that Clinton's defense of Medicare, education, and the environment was critical to his success, Marshall asserts that his centrist positions were the "real key." This is sheer hubris. In reality, after a year of "common-ground" appeals failed to strengthen his position, Clinton revived with the battle of the budget. Both the Greenberg and Penn national polls show that protecting Medicare and education were substantially more important to people than balancing the budget. While Clinton's stands on social issues, particularly his defense of family values and his support for parents, were important, the national surveys are very clear: Clinton voters focused first on education and retirement security.

Marshall attributes Clinton's victory to gains among people with family incomes between $30,000 and $75,000. That assertion is wrong. Clinton made absolutely no gains with voters earning over $50,000; his increased margin came from families earning between $15,000 and $50,000. Apparently, Marshall is straining to invent an upscale groundswell that did not happen.

This is not a technical quibble. Marshall bases his argument that Democrats must "build a constituency in the new economy" on it. Focusing on more upscale "knowledge workers" emboldens Marshall to advance an agenda that glorifies markets, even championing the most sweeping privatization of Social Security.

Citing the Penn poll, Marshall says the public voted for major structural changes in Social Security and Medicare. But this, as we pointed out, is a manufactured result. People voted for the Democrats to protect these programs, not to cash them in. The DLC's formulation for Social Security—that it should be converted from "a transfer program to a new system of individual private savings supplemented by modest pensions for the needy"—may be popular on Wall Street, but it will be poison on Main Street.

The DLC's focus on upscale voters allows it to abandon its own welfare reform proposal that required more money for the transition to work—training, daycare, medical care, public work jobs. Now, the DLC celebrates instead a Republican welfare repeal that cuts $55 billion from the program and does little to promote work—pretending there is no difference between their original proposal and the Republican evisceration of the program.

Marshall's upscale aspirations underscore the biggest differences between him and us. We believe Democrats should find their mission in helping ordinary people make a better life in a period of historic change. We start with the 70 percent of the American people who do not have a four-year college degree. Some of them work in the "new economy" but many are stuck in the old. Whether skilled or unskilled, they are struggling to make their way in an economy that does not work very well for them. They support an agenda that strengthens the social contract now being shredded in the marketplace.

The central question is one of mission. Are today's progressives enlisting in the process of alienating people from the government and dismantling social guarantees? Or are they, like their forbears, focused on taking on "unaccountable private principalities" in their modern guise, empowering people in a changing world, and affirming the interests and values of working people?❑

Take Four

To the Editors:

In "The Clinton Presidency, Take Three" [January-February 1997], Paul Starr makes a case that not all the ideas advanced by the President in his re-election campaign were modest or trivial. Starr's lead example, however, is weak: "Making two years of college universally available (through the mechanism of a tax credit) would be a historic extension of publicly financed education." That description is as extravagant and misleading as the administration's own propaganda for its tuition tax relief proposals. What's more, those proposals would be bad tax policy and worse education policy.

Make no mistake, Clinton is an education president if we ever had one. He believes and has argued passionately that the country needs to invest more in education to boost economic growth, expand opportunity, and reduce growing income disparities. But tinkering with the tax code won't achieve these worthy objectives.

Under the President's plan, the vast majority of taxpayers—joint filers with incomes up to $100,000 and single filers up to $70,000—could choose to deduct up to $10,000 in tuition expenses from their taxable income or take a tax credit (directly offset against federal income tax) of $1,500 for the first year of undergraduate education or training. The credit would be renewable for a second year if the student maintains a B average and remains drug-free.

This is part of the "targeted" tax relief, tax relief with a theme, that Clinton used to counter Dole's tax-cut bonanza in the campaign; stung by charges that he never made good on his 1992 promise of a middle-class tax cut, the President seems all the more determined to stick with this one. The problem is his proposal is just that and nothing more: a middle-class tax cut. Most of the benefits would be a windfall for families of students who would attend college anyway. That won't lift the country's net investment in education or widen opportunities for higher education. College participation rates of middle- and upper-income students, already high, are rising. It's the less advantaged who need encouragement and help.

Unintended consequences of the President's proposal could include accelerating the tuition spiral and giving another boost to grade inflation. And dragging the Internal Revenue Service into the delivery of educational benefits is bound to be a mistake. The B average, drug-free, and other requirements would complicate the tax code and take colleges and universities into a whole new territory of regulation they won't like.

One thing that is not trivial about this proposal is its estimated cost: $43 billion in revenue lost to the government over six years. That's hardly in the league of Medicare or defense expenditures, but annually it's more than is currently spent on Pell Grants, which have lost one-third of their value to inflation during the past 15 years. If more than $40 billion really can be found to expand access to higher education, surely it would be better invested in Pell and other grant, loan, and work-study programs.

The existing student aid programs are not just for the poor. They help low- and, yes, middle-income students based on need, and they get the dollars to students when tuition bills are due, not months later in a tax refund. Let's restore the purchasing power of student aid, rather than creating another middle-class entitlement through the tax code.

Lawrence E. Gladieux
Washington, D.C.

Mr. Gladieux is Executive Director for Policy Analysis of The College Board, and co-author (with Arthur M. Hauptman) of The College Aid Quandary: Access, Quality, and the Federal Role.

Paul Starr Responds:

Lawrence E. Gladieux raises a legitimate criticism—the same criticism that is always made of universal programs by advocates of benefits targeted more narrowly on the poor. Unfortunately, narrowly targeted benefits also tend to have correspondingly narrow—and weak—political support. And, perhaps most important, such programs do not come to be considered as elements of citizenship.

I don't doubt that, in the short run, a program to make the first two years of higher education universally accessible will disproportionately benefit middle- and upper-income students and their families who already attend college. But, in the long run, the principle of universality is chiefly in the interest of people who would otherwise be excluded or simply never dream that they could take their education any further than high school. Establish the principle. Fix the mechanisms later.

Wrong on Race

To the Editors:

Martin Carnoy and Richard Rothstein ["Are Black Diplomas Worth Less?" January-February 1997] are right to argue that government intervention into labor markets is still needed to reduce discrimina-

tion. Unfortunately, their interpretation of the evidence of discrimination is seriously flawed, as is their conclusion that "affirmative action is one way to push wages in the direction of being more consistently and rationally related to workers' qualifications."

Carnoy and Rothstein document that a fall in the black-white education gap has coincided with a rise in the black-white earnings gap (among young workers in California since 1980). However, their figures show that the rise in black male college graduation rates has been only two percentage points while the rise for comparable whites has been one percentage point. Thus the relative rise in black male college graduation rates—the only educational measurement with any payoff in today's economy—has been negligible.

Carnoy and Rothstein do not report college graduation rates for black females; however, they do report that black women earned 6 percent more than white women with similar educational attainment in 1979 but 4 percent less in 1989. By their own logic these figures suggest that black females were overpaid relative to their white counterparts in 1979. Given the other factors that would tend to depress the relative wages of black women (for example, college rank and major, achievement scores, marital status, number of children, and so forth), it is tempting to conclude that racial parity in female earnings was if anything restored over the course of that decade.

The fall in relative wages for young black males in California does not correspond to relative wage movements for all full-time workers nationally. In 1973, the black-white gap in median male earnings was 73 percent; by 1993 it stood at 74 percent. The comparable figures for women were 92 percent in 1973 and 90 percent in 1993. These trends are essentially flat. They suggest that affirmative action (which began in the early 1970s) has done little to reduce racial inequality.

Over the same period the relative educational attainment and achievement of the black population has risen, albeit slowly. But the contrast between the trends in earnings and education is too weak and is mediated by too many other factors to be used to draw conclusions about discrimination. For example, cutbacks in government employment, increases in black out-of-wedlock births, and the growth of inequality between and within educational groups are all factors that would tend to increase racial inequality over the period that Carnoy and Rothstein discuss.

The same weak relationship between trends in education and earnings can be observed nationally. Over the past couple of decades educational attainment has risen while real earnings have stagnated or fallen. Economic, political, and demographic developments have changed the traditional relationship between earnings and education. Carnoy and Rothstein have simply failed to observe that the same factors that affect this relationship in the aggregate also affect its racial dimension.

Discrimination continues to mar our economy and society, but the struggle against racism is not helped by exaggerated claims about its extent or effects.

Steven Shulman
Fort Collins, Colorado

Mr. Shulman is a professor of economics at Colorado State University.

Martin Carnoy and Richard Rothstein Respond:

We argued that despite a fall in black-white educational attainment and achievement gaps from 1980 to 1995, black-white wage inequality grew. We did not claim an increase in discrimination, only that the failure of educational gains to dent the wage gap runs contrary to arguments by affirmative action foes that more and better education will eliminate racial wage inequality. The data strongly support our limited claims.

We agree with Shulman that factors other than education influence wage inequality: although black males and females made large educational attainment gains during this period, they made only small relative gains in college completion, where the payoff increased, relative to payoffs for high school graduation.

However, Professor Shulman's letter seems aimed mainly at showing that affirmative action has not worked. Yet his choice of 1973 and 1993 as dates for comparing effects of affirmative action is misleading. Relative wages of both black men and women rose sharply between the mid-1960s and 1979, then fell somewhat (especially for younger black male college graduates) in the 1980s and began rising again for males in the 1990s. These trends are hardly "flat." In the 1970s when the Civil Rights Act was strongly enforced, young blacks made large gains both in college access and in relative wages. In the 1980s, when civil rights protections, including affirmative action, were less vigorously enforced, blacks (particularly young male college grads) lost ground.

Shulman's claim that relative educational attainment and achievement of blacks from 1973-93 rose slowly is inaccurate. In 1970, only 39 percent of black males in the labor force had completed high school, compared to 62 percent of white males; by 1990, 78 percent of black males had completed high school, compared to 86 percent of white males. Black women made corre-

sponding gains. Blacks also made very large relative achievement gains in both reading and math.

Further, we dispute Shulman's claim that the contrast between trends in earnings and education is too weak to draw conclusions about market failure to explain black-white wage inequality. Economists generally believe that increased income inequality in the 1980s stems partly from increased payoffs to higher education. In the 1970s, relative gains in educational attainment by blacks contributed to a reduced wage gap; in the 1980s they did not. This can be partly explained by the smaller gains blacks made in college completion, where payoff increased. But Richard Murnane and Frank Levy contend that the payoff to high school achievement rose in the 1980s, so rapidly rising relative black achievement scores should have had an offsetting effect, leading to higher relative pay. Something changed in the 1980s, but it certainly was not a generally weakening relationship between relative education and relative earnings; the weakening relationship seems to have been a unique minority experience.

Finally, our article carefully did NOT say that affirmative action was the best or only remedy to these problems. In some cases, other remedies are preferable: for example, full employment and more aggressive minimum wage policies might do more to offset the detrimental market imperfections we identified. Our main claim is that opponents of affirmative action insist that its job has been done and that poor minority labor market outcomes result mainly from poor minority educational qualifications. It's just not so.

The American Prospect welcomes correspondence. Brief letters are preferred and stand a better chance of being published. Letters must include the writer's name, address, and telephone number, and may be edited for length. Send letters to P.O. Box 383080, Cambridge, MA 02238, or via e-mail to tap@epn.org.

Drawing a Blank

To the Editors:

Rebecca M. Blank's conundrum about unemployment and labor markets in Europe and the United States ["The Misdiagnosis of Eurosclerosis," January-February 1997] comes from focusing on a microanalysis of labor markets separate from their macroeconomic context. She hints at this in one sentence buried in the article, in which she refers to Robert Solow's contention that "most of Europe's problem is macroeconomic." More needs to be said about this and her premise that rates of unemployment followed the U.S. trajectory upward from the OPEC shock through the early 1980s, then never recovered in the second half of the 1980s.

The fact is that unemployment rates in Europe were not out of balance before the 1990s. From an unemployment rate of 5 percent in the late 1970s (below the rate in the U.S.), European rates rose to 10 percent by 1986 (not terribly different from the increase in the U.S. unemployment rate), then started downward to 8 percent by 1990 before the German unification shock pushed them toward 12 percent in the 1990s. What has to be explained, therefore, is not a quarter century of unemployment rates significantly higher than in the United States—an inaccurate picture painted by the OECD and others—but why high unemployment emerged in the 1990s.

Europe was on the path toward recovery in the second half of the 1980s. The Single European Act of 1986 had reinforced a robust European social market economy: a mix of acceptable levels of unemployment with a strong dose of economic security in a more open trading system. In the competition for how the next century will be named, many commentators opted for the European Century.

But the European project was derailed by German unification. Paid for by extraordinarily heavy borrowing, western Germany undertook debt obligations that forced it to raise interest rates to attract foreign financing and cover what for them was unacceptable inflation. The German mark, as the anchor currency in Europe, pulled along every other country. Each raised interest rates to stabilize a national currency against the mark, even though inflation rates were low outside of Germany. All European currencies, consequently, became overvalued by around 20 percent, lowering exports and, were it not for recession, stimulating imports. Tangible investment in technology, enterprise development, and expansion outside the public sector dried up.

The problem was compounded by the 1991 Maastricht agreement that cemented these unbalanced macroeconomic policies into a treaty obligation whose endgame was a common currency. Maastricht imposed on countries a rapid and radical reduction in annual budget deficits at a time when deep recession was driving deficits upward. The result has been a flawed policy mix the world has not seen since the Great Depression.

Whatever one's ideological disposition—Keynesian or monetarist—lower budget deficits, high interest rates, and overvalued currencies are not the polices to follow in the midst of high unemployment

and low inflation. Instead of cutting deeply into the core of the European social contract, the least-cost answer for Europe is to lower interest rates and relieve budgetary pressures by postponing the 1999 single currency deadline. Looking only at the flexibility of labor markets, as does Professor Blank, traps liberals into accepting the premises of conservative economic ideology and then arguing unpersuasively around the edges.

The growing conflict in Europe, which has been crystallized around such undertakings as the OECD Jobs Project, Maastricht, and the pressure to "Americanize" labor markets, amounts to a confrontation with globalization. Europeans refer to the fall 1995 strike in France as the first public action against globalization. This is what is at stake for a Europe that remains the last holdout for the mid-century social market experiment.

Howard M. Wachtel
Washington, D.C.

Howard M. Wachtel is a professor of economics at American University.

REBECCA M. BLANK RESPONDS:

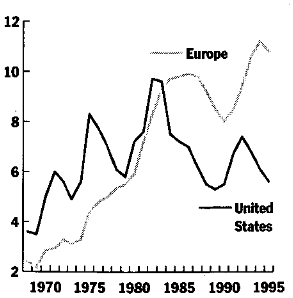
I very much agree with Professor Wachtel's contention that macroeconomic and monetary policy are important in explaining European economic events, and particularly in understanding what is happening in any particular country. I disagree with him, however, when he claims that unemployment was not out of line before the 1990s, and that European unemployment problems have been driven almost solely by policy changes related to German unification and the Maastricht agreement.

The graph on the right ("Unemployment in Europe and the United States") indicates how unemployment in Western Europe rose to unprecedented levels in the 1980s, and stayed there for much of the decade. In contrast, unemployment in the United States was at approximately the same level by the late 1980s as it had been in the late 1970s. In Europe, unemployment was almost twice as high. But in the mid-1980s virtually every government in Western Europe was implementing major policy changes designed to reduce unemployment, as my article mentioned. The widespread publication of books and articles attempting to explain these stubbornly high unemployment rates are a further sign of how seriously most European observers took this problem in the 1980s. While unemployment in Europe did finally begin to fall by 1988, it did not come anywhere near its pre-1980s levels, and after 1990 it took off again.

The reasons behind the expansion in unemployment in the 1990s are many. Wachtel points to some that clearly affected a number of key European nations. But it was not European-specific macroeconomic policy alone driving this, as is evidenced by the fact that U.S. unemployment rose at exactly the same time.

Wachtel's story is too narrow. There is insubstantial evidence of structural changes in the behavior of European labor markets following the recession of the early 1980s. While many aspects of these changes are not yet fully understood, they appear to be related to the structural changes in U.S. labor markets during that same period that resulted in rising wage inequality, as my article describes.

UNEMPLOYMENT IN EUROPE AND THE UNITED STATES



FREE TRADE FANTASIES

To the Editors:

To whatever extent economists, multinational corporations, or anyone else takes issue with some aspect of William Greider's analysis of America's international trade and investment ["Who Governs Globalism, January-February 1997], all concerned with this policy area should address the question he poses: "If free trade was a good thing, one now had to ask more precisely: Good for whom?"

It is not good enough to contend that our policy must advance the national interest. U.S. corporations engaged in international trade or investment eloquently tout their contribution to the national interest. But, not surprisingly, this contribution is to only as much of the national interest as happens to serve their own special interests. The national interest standard requires more far-reaching definition. Among other components, every effort should be made to ensure that the trade and investment policy advantageous to the nation as a whole is also advantageous to every state in the union, even every city and county.

David J. Steinberg
Alexandria, Virginia

Mr. Steinberg was chief economist of the free trade Committee for a National Trade Policy from 1961 to 1974, and president of the U.S. Council for an Open World Economy from 1974 to 1989.

THE LIMITS OF MARKETS

BY ROBERT KUTTNER

The claim that the freest market produces the best economic outcome is the centerpiece of the conservative political resurgence. If the state is deemed incompetent to balance the market's instability, temper its inequality, or correct its myopia, there is not much left of the mixed economy and the modern liberal project.

Yet while conservatives resolutely tout the superiority of free markets, many liberals are equivocal about defending the mixed economy. The last two Democratic presidents have mainly offered a more temperate call for the reining in of government and the liberation of the entrepreneur. The current vogue for deregulation began under Jimmy Carter. The insistence on budget balance was embraced by Bill Clinton, whose pledge to "reinvent government" was soon submerged in a shared commitment to shrink government. Much of the economics profession, after an era of embracing a managed form of capitalism, has also reverted to a new fundamentalism about the virtues of markets. So there is today a stunning imbalance of ideology, conviction, and institutional armor between right and left.

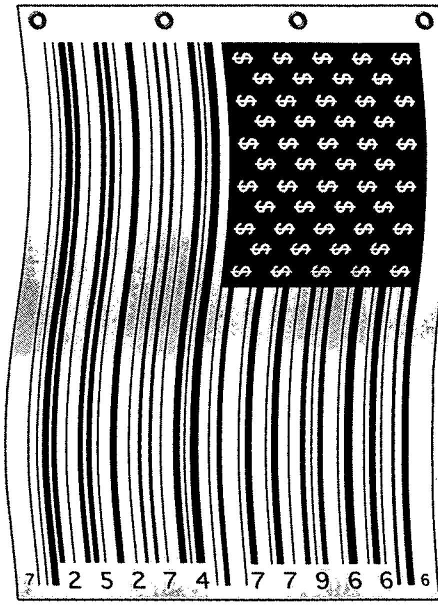
At bottom, three big things are wrong with the utopian claims about markets. First, they misdescribe the dynamics of human motivation. Second, they ignore the fact that civil society needs realms of political rights where some things are not for sale. And third, even in the economic realm, markets price many things wrong, which means that pure markets do not yield optimal economic outcomes.

There is at the core of the celebration of markets relentless tautology. If we begin by assuming that nearly everything can be understood as a market and that markets optimize outcomes, then every-

Adapted by the author from Everything for Sale: The Virtues and Limits of Markets, *Alfred A. Knopf/Twentieth Century Fund, published January 1997.*

thing leads back to the same conclusion—marketize! If, in the event, a particular market doesn't optimize, there is only one possible conclusion—it must be insufficiently market-like. This is a no-fail system for guaranteeing that theory trumps evidence. Should some human activity not, in fact, behave like an efficient market, it must logically be the result of some interference that should be removed. It does not occur that the theory mis-specifies human behavior.

The school of experimental economics, pioneered by psychologists Daniel Kahneman and Amos Tversky, has demonstrated that people do not behave the way the model specifies. People will typically charge more to give something up than to acquire the identical article; economic theory would predict a single "market-clearing" price. People help strangers, return wallets, leave generous tips in restaurants they will never visit again, give donations to public radio when theory would predict they would rationally "free-ride," and engage in other acts that suggest they value general norms of fairness. To conceive of altruism as a special form of selfishness misses the point utterly.



Although the market model imagines a rational individual, maximizing utility in an institutional vacuum, real people also have civic and social selves. The act of voting can be shown to be irrational by the lights of economic theory, because the "benefit" derived from the likelihood of one's vote affecting the outcome is not worth the "cost." But people vote as an act of faith in the civic process, as well as to influence outcomes.

In a market, everything is potentially for sale. In a political community, some things are beyond price. One's person, one's vote, one's basic democratic rights do not belong on the auction block. We no longer allow human beings to be bought and sold via slavery (though influential Chicago economists have argued that it would be efficient to treat adoptions as auction markets). While the market keeps trying to invade the polity, we do not permit the literal sale of public office. As James Tobin wrote, commenting on the myopia of his own profession, "Any good second-year graduate student in economics could write a short examination paper proving that voluntary transactions in votes would increase the welfare of the sellers as well as the buyers."

But the issue here is not just the defense of a civic realm beyond markets or of a socially bearable income distribution. History also demonstrates that in much of economic life, pure reliance on markets produces suboptimal outcomes. Market forces,

left to their own devices, lead to avoidable financial panics and depressions, which in turn lead to political chaos. Historically, government has had to intervene, not only to redress the gross inequality of market-determined income and wealth, but to rescue the market from itself when it periodically goes haywire. The state also provides oases of solidarity for economic as well as social ends, in realms that markets cannot value properly, such as education, health, public infrastructure, and clean air and water. So the fact remains that the mixed economy—a strong private sector tempered and leavened by a democratic polity—is the essential instrument of both a decent society and an efficient economy.

The second coming of laissez faire has multiple causes. In part, it reflects the faltering of economic growth in the 1970s, on the Keynesian watch. It also reflects a relative weakening of the political forces that support a mixed economy—the declining influence of the labor movement, the erosion of working-class voting turnout, the suburbanization of the Democratic Party, and the restoration of the political sway of organized business—as well as the reversion of formal economics to pre-Keynesian verities.

Chicago-style economists have also colonized other academic disciplines. Public Choice theory, a very influential current in political science, essentially applies the market model to politics. Supposedly, self-seeking characterizes both economic man and political man. But in economics, competition converts individual selfishness into a general good, while in politics, selfishness creates little monopolies. Public Choice claims that office holders have as their paramount goal re-election, and that groups of voters are essentially "rent seekers" looking for a free ride at public expense, rather than legitimate members of a political collectivity expressing democratic voice. Ordinary citizens are drowned out by organized interest groups, so the mythic "people" never get what they want. Thus, since the democratic process is largely a sham, as well as a drag on economic efficiency, it is best to entrust as little to the public realm as possible. Lately, nearly half the articles in major political science journals have reflected a broad Public Choice sensibility.

The Law and Economics movement, likewise, has made deep inroads into the law schools and courts, subsidized by tens of millions of dollars from right-wing foundations. The basic idea of Law and Economics is that the law, as a system of rules and rights, tends to undermine the efficiency of markets. It is the duty of judges, therefore, to make the law the servant of market efficiency rather than a realm of civic rights. Borrowing from Public Choice theory, Law and Economics scholars contend that since democratic deliberation and hence legislative intent are largely illusory, it is legitimate for courts to ignore legislative mandates—not to protect rights of minorities but to protect the efficiency of markets. Regulation is generally held to be a deadweight cost, since it cannot improve upon the outcomes that free individuals would rationally negotiate.

These intellectual currents are strategically connected to the political arena. Take the journal titled *Regulation*, published for many years by the American Enterprise Institute, and currently published by the Cato Institute. Though it offers lively policy debates over particulars, virtually every article in *Regulation* is anti-regulation. Whether the subject is worker safety, telecommunications, the environment, electric power, health care—whatever—the invariable subtext is that government screws things up and markets are self-purifying. It is hardly surprising that the organized right publishes such a journal. What is more depressing, and revealing, is that there is no comparable journal with a predisposition in favor of a mixed economy. This intellectual apparatus has become the scaffolding for the proposition that governments should leave markets alone.

Markets, Efficiency, and Justice

The moral claim of the free market is based on the interconnected premises that markets maximize liberty, justice, and efficiency. In a market economy, individuals are free to choose, as Milton Friedman famously wrote. They are free to decide what to buy, where to shop, what businesses or professions to pursue, where to live—subject "only" to the constraints of their individual income and wealth. The extremes of wealth and poverty seemingly mock the claim that markets epitomize human freedom—a poor man has only the paltry freedoms of a meager income. But the constraints of market-determined income are presumed defensible, because of the second claim—that the purchasing power awarded by markets is economically fair. If Bill Gates has

several billion dollars to spend, that is only because he has added several billions of dollars of value to the economy, as validated by the free choices of millions of consumers. An unskilled high school dropout, in contrast, has little freedom to consume, because his labor offers little of value to an employer. There may be extenuating prior circumstances of birth or fortune, but each of us is ultimately responsible for our own economic destiny.

> Extremes of wealth and poverty mock the claim that markets maximize human freedom.

Linking these two premises is the third claim—that markets are roughly efficient. The prices set by supply and demand reflect how the economy values goods and services. So the resulting allocation of investment is efficient, in the sense that an alternative allocation mandated by extra-market forces would reduce total output. This is why professional economists who have liberal social values as citizens generally argue that if we don't like the social consequences of market income distribution, we should redistribute after the fact rather than tamper with the market's pricing mechanism.

Of course, each of these core claims is ultimately empirical. If in fact the freest market does not truly yield the optimal level of material output, then it follows that a pure market is neither just nor conducive of maximal liberty. A tour of the actual economy reveals that some sectors lend themselves to markets that look roughly like the market of the textbook model, while others do not.

Why would markets not be efficient? The most orthodox explanation is the prevalence of what economists call "externalities." These are costs or benefits not captured by the price set by the immediate transaction. The best-known negative externality is pollution. The polluter "externalizes" the true costs of his waste products onto society by dumping them, at no personal cost, into a nearby river or spewing them into the air. If the full social cost were internalized, the price would be higher.

Positive externalities include research and education. Individuals and business firms underinvest in education and research because the benefits are diffuse. The firm that trains a worker may not capture the full return on that investment, since the worker may take a job elsewhere; the fruits of technical invention, likewise, are partly appropriated by competitors. As economists put it, the private return does not equal the social return, so we cannot rely on profit-maximizing individuals for the optimal level of investment. By the same token, if we made the education of children dependent on the private resources of parents, society as a whole would underinvest in the schooling of the next generation. There is a social return on having a well-educated workforce and citizenry. As the bumper sticker sagely puts it, "If you think education is expensive, try ignorance."

Standard economics sees externalities as exceptions. But a tour of economic life suggests that in a very large fraction of the total economy, markets do not price things appropriately. When we add up health, education, research, public infrastructure, plus structurally imperfect sectors of the economy like telecommunications, they quickly add up to more than half of society's total product. The issue is not whether to temper market verdicts, but how.

Super Markets

Even realms that are close to textbook markets can actually be enhanced by extra-market interventions. Consider your local supermarket. The pricing and supply of retail food is mostly unregulated, and fiercely competitive. Somehow, the average consumer's lack of infinite time to go shopping, and less-than-perfect information about the relative prices of a thousand products in several local stores, exactly allows the supermarket to earn a normal profit.

Supermarkets connect the retail market to the agricultural one. The supermarket also provides part of the local market for labor and capital. Though cashiers and meat cutters are not the most glamorous of jobs, the supermarket manages to pay just enough to attract people who are just competent enough to perform the jobs acceptably. If supermarket profits

are below par over time, the price of its shares will fall. That also operates as a powerful signal—on where investors should put their capital, and on how executives must supervise their managers and managers their employees.

Though there may be occasional missteps, and though some supermarkets go bankrupt, the interplay of supply and demand in all of these submarkets contributes to a dynamic equilibrium. It results in prices that are "right" most of the time. The supermarket stocks, displays, and prices thousands of different highly perishable products in response to shifting consumer tastes, with almost no price regulation. Supply and demand substitutes for elaborate systems of control that would be hopelessly cumbersome to administer. No wonder the champions of the market are almost religious in their enthusiasm.

But please note that supermarkets are not perfectly efficient. Retail grocers operate on thin profit margins, but the wholesale part of the food distribution chain is famous for enormous markups. A farmer is likely to get only 10 cents out of a box of corn flakes that retails for $3.99. Secondly, even supermarkets are far from perfectly free markets. Their hygiene is regulated by government inspectors, as is most of the food they sell. Government regulations mandate the format and content of nutritional labeling. They require clear, consistent unit pricing, to rule out a variety of temptations of deceptive marketing. Moreover, many occupations in the food industry, such as meat cutter and cashier, are substantially unionized; so the labor market is not a pure free market either. Much of the food produced in the United States is grown by farmers who benefit from a variety of interferences with a laissez-faire market, contrived by government to prevent ruinous fluctuations in prices. The government also subsidizes education and technical innovation in agriculture.

So even in this nearly perfect market, a modicum of regulation is entirely compatible with the basic discipline of supply and demand, and probably enhances its efficiency by making for better-informed consumers, less-opportunistic sellers, and by placing the market's most self-cannibalizing tendencies off-limits. Because of the imperfect information of consumers, it is improbable that repealing these regulations would enhance efficiency.

Regulation improves efficiency by limiting the market's most self-cannibalizing tendencies.

Sick Markets

Now, however, consider a very different sector—health care. Medical care is anything but a textbook free market, yet market forces and profit motives in the health industry are rife. On the supply side, the health industry violates several conditions of a free market. Unlike the supermarket business, there is not "free entry." You cannot simply open a hospital, or hang out your shingle as a doctor. This gives health providers a degree of market power that compromises the competitive model—and raises prices. On the demand side, consumers lack the special knowledge to shop for a doctor the way they buy a car and lack perfectly free choice of health insurer. And since society has decided that nobody shall perish for lack of medical care, demand is not constrained by private purchasing power, which is inflationary.

Health care also offers substantial "positive externalities." The value to society of mass vaccinations far exceeds the profits that can be captured by the doctor or drug company. If vaccinations and other public health measures were left to private supply and demand, society would seriously underinvest. Society invests in other public health measures that markets underprovide. The health care system also depends heavily on extra-market norms—the fact that physicians and nurses are guided by ethical constraints and professional values that limit the opportunism that their specialized knowledge and power might otherwise invite. [See Deborah A. Stone, "Bedside Manna," page 42.]

The fact that health care is a far cry from a perfect market sets up a chain of perverse incentives. A generation ago, fee-for-service medicine combined with insurance reimbursement to stimulate excessive treatment and drive up costs. Today many managed care companies reverse the process and create incentives to deny necessary care. In either case,

this is no free market. Indeed, as long as society stipulates that nobody shall die for lack of private purchasing power, it will never be a free market. That is why it requires regulation as well as subsidy.

Here is the nub of the issue. Are most markets like supermarkets—or like health markets? The conundrum of the market for health care is a signal example of an oft-neglected insight known as the General Theory of the Second Best. The theory, propounded by the economists Richard Lipsey and Kelvin Lancaster in 1956, holds that when a particular market departs significantly from a pure market, attempts to marketize partially can leave us worse off.

A Second Best market (such as health care) is not fully accountable to the market discipline of supply and demand, so typically it has acquired second-best forms of accountability—professional norms, government supervision, regulation, and subsidy—to which market forces have adapted. If the health care system is already a far cry from a free market on both the demand side and the supply side, removing one regulation and thereby making the health system more superficially market-like may well simply increase opportunism and inefficiency. In many economic realms, the second-best outcome of some price distortion offset by regulation and extra-market norms may be the best outcome practically available.

Another good Second Best illustration is the banking industry. Until the early 1970s, banking in the United States was very highly regulated. Regulation limited both the price and the quantity of banking services. Bank charters were limited. So were interest rates. Banks were subject to a variety of other regulatory constraints. Of course, banks still competed fiercely for market share and profitability, based on how well they served customers and how astutely they analyzed credit risks. Partially deregulating the banking and savings and loan industries in the 1980s violated the Theory of the Second Best. It pursued greater efficiency, but led to speculative excess. Whatever gains to the efficiency of allocation were swamped by the ensuing costs of the bailout.

The Three Efficiencies

The saga of banking regulation raises the question of contending conceptions of efficiency. The efficiency prized by market enthusiasts is "allocative." That is, the free play of supply and demand via price signals will steer resources to the uses that provide the greatest satisfaction and the highest return. Regulation interferes with this discipline, and presumably worsens outcomes. But in markets like health care and banking, the market is far from free to begin with. Moreover, "allocative" efficiency leaves out the issues that concerned John Maynard Keynes—whether the economy as a whole has lower rates of growth and higher unemployment than it might achieve. Nor does allocative efficiency deal with the question of technical advance, which is the source of improved economic performance over time. Technical progress is the issue that concerned the other great dissenting economic theorist of the early twentieth century, Joseph Schumpeter. Standard market theory lacks a common metric to assess these three contending conceptions of efficiency.

Countermanding the allocative mechanism of the price system may depress efficiency on Adam Smith's sense. But if the result is to increase Keynesian efficiency of high growth and full employment, or the Schumpeterian efficiency of technical advance, there may well be a net economic gain. Increasing allocative efficiency when unemployment is high doesn't help. It may even hurt—to the extent that intensified competition in a depressed economy may throw more people out of work, reduce overall purchasing power, and deep-

en the shortfall of aggregate demand.

By the same token, if private market forces underinvest in technical innovation, then public investment and regulation can improve on market outcomes. Patents, trademarks, and copyrights are among the oldest regulatory interventions acknowledging market failure, and creating artificial property rights in innovation. As technology evolves, so necessarily does the regime of intellectual property regulation.

In my recent book, *Everything For Sale*, I examined diverse sectors of the economy. Only a minority of them operated efficiently with no regulatory interference. Some sectors, such as banking and stock markets, entail both fiduciary responsibilities and systemic risks. In the absence of financial regulation, conflicts of interest and the tendency of money markets to speculative excess could bring down the entire economy, as financial panics periodically did in the era before regulation.

Other sectors, such as telecommunications, are necessarily a blend of monopoly power and competition. New competitors now have the right to challenge large incumbents, but often necessarily piggyback on the infrastructure of established companies that they are trying to displace. Without regulation mandating fair play, they would be crushed. The breakup of the old AT&T monopoly allows greater innovation and competition, but if the new competition is to benefit consumers it requires careful ground rules. The 1996 Telecommunications Act, complex legislation specifying terms of fair engagement, is testament for the ongoing need for discerning regulation in big, oligopolistic industries.

Similarly, in the electric power industry, where new technologies allow for new forms of competition, the old forms of regulation no longer apply. Once, a public utility was granted a monopoly; a regulatory agency guaranteed it a fair rate of return. Today, the system is evolving into one in which residential consumers and business customers will be able to choose among multiple suppliers. Yet because of the need to assure that all customers will have electric power on demand, and that incumbents will not be able to drive out new competitors, the new system still depends on regulation. A regime of regulated competition is replacing the old form of regulation of entry and price—but it is regulation nonetheless.

Regulation, of course, requires regulators. But if democratic accountability is a charade, if regulators are hopeless captives of "rent-seeking" interest groups, if public-mindedness cannot be cultivated, then the regulatory impulse is doomed. Yet because capitalism requires ground rules, it is wrong to insist that the best remedy is no regulation at all. The choice is between good regulation and bad regulation.

In the 1970s, many economists, including many relative liberals such as Charles Schultze, began attacking "command-and-control" regulation for overriding the market's pricing mechanism. Instead, they commended "incentive regulation," in which public goals would take advantage of the pricing system. What Schultze proposed in the area of pollution control, Alfred Kahn commended for electric power regulation and Alain Enthoven proposed for health insurance. But what all three, and others in this vein, tended to overlook is that incentive regulation is still regulation. It still requires competent, public-minded regulators. And because technology continues to evolve, regulation is not merely transitional.

The 1990 Clean Air Act created an innovative acid rain program that supplanted "command-and-control" regulation of sulphur dioxide emissions with a new, "market-like" system of tradable emission permits. But before this system could operate, myriad regulatory determinations were necessary. Public policy had to specify the total permissible volume of pollutants, how the new market was to be structured, and how emissions were to be monitored. This was entirely a contrived market. So was the decision to auction off portions of the broadcast spectrum. Though hailed as more "market-like" than the previous system of administrative broadcast licensing, the creation of auctions required innumerable regulatory determinations.

Unlike airline deregulation, in which the supervisory agency, the Civil Aeronautics Board, was put out of business, the Federal Communications Commission and the Environmental Protection Agency remain to monitor these experiments in incentive regulation and to make necessary course corrections. Airline deregulation has been at best a mixed success, because there is no government agency to police the results and to intervene to prevent collusive or predatory practices.

Similarly, if we are to use incentives in sectors that have previously been seen as public goods, such as education, issues of distribution inevitably arise. How public policy allocates, say, vouchers,

and how it structures incentives, cannot help affecting who gets the service. The ideal of a pure market solution to a public good is a mirage.

The basic competitive discipline of a capitalist economy can coexist nicely with diverse extra-market forces; the market can even be rendered more efficient by them. These include both explicit regulatory interventions and the cultivation of extra-market norms, most notably trust, civility, and long-term reciprocity. Richard Vietor of the Harvard Business School observes in his 1994 book, *Contrived Competition*, that imperfect, partly regulated markets still are highly responsive to competitive discipline. The market turns out to be rather more resilient and adaptive than its champions admit. In markets as varied as banking, public utilities, and health care, entrepreneurs do not sicken and expire when faced with regulated competition; they simply revise their competitive strategy and go right on competing. Norms that commit society to resist short-term opportunism can make both the market and the society a healthier place. Pure markets, in contrast, commend and invite opportunism, and depress trust.

Norms that commit society to resist short-term opportunism can make both the market and the society a healthier place.

The Inevitability of Politics

A review of the virtues and limits of markets necessarily takes us back to politics. Even a fervently capitalist society, it turns out, requires prior rules. Rules govern everything from basic property rights to the fair terms of engagement in complex mixed markets such as health care and telecommunications. Even the proponents of market-like incentives—managed competition in health care, tradable emissions permits for clean air, supervised deregulation of telecommunications, compensation mandates to deter unsafe workplace practices—depend, paradoxically, on discerning, public-minded regulation to make their incentive schemes work. As new, unimagined dilemmas arise, there is no fixed constitution that governs all future cases. As new products and business strategies appear and markets evolve, so necessarily does the regime of rules.

The patterns of market failure are more pervasive than most market enthusiasts acknowledge. Generally, they are the result of immutable structural characteristics of certain markets and the ubiquity of both positive and negative spillovers. In markets where the consumer is not effectively sovereign (telecommunications, public utilities, banking, airlines, pure food and drugs), or where the reliance on market verdicts would lead to socially intolerable outcomes (health care, pollution, education, gross income inequality, the buying of office or purchase of professions), a recourse purely to ineffectual market discipline would leave both consumer and society worse off than the alternative of a mix of market forces and regulatory interventions. While advocates of laissez faire presume that the regulation characteristic of an earlier stage of capitalism has been mooted by technology, competition, and better-informed consumers, they forget that the more mannered capitalism of our own era is precisely the fruit of regulation, and that the predatory tendencies persist.

Contrary to the theory of perfect markets, much of economic life is not the mechanical satisfaction of preferences or the pursuit of a single best equilibrium. On the contrary, many paths are possible—many blends of different values, many mixes of market and social, many possible distributions of income and wealth—all compatible with tolerably efficient getting and spending. The grail of a perfect market, purged of illegitimate and inefficient distortions, is a fantasy.

The real world displays a very broad spectrum of actual markets with diverse structural characteristics, and different degrees of separation from the textbook ideal. Some need little regulation, some a great deal—either to make the market mechanism work efficiently or to solve problems that the market cannot fix. Someone has to make such determinations, or we end up in a world very far from even the available set of Second Bests. In short, rules

require rule setters. In a democracy, that enterprise entails democratic politics.

The market solution does not moot politics. It only alters the dynamics of influence and the mix of winners and losers. The attempt to relegate economic issues to "nonpolitical" bodies, such as the Federal Reserve, does not rise above politics either. It only removes key financial decisions from popular debate to financial elites, and lets others take the political blame. A decision to allow markets, warts and all, free rein is just one political choice among many. There is no escape from politics.

The quality of political life is the most fundamental public good.

Quis Custodet?

The issue of how precisely to govern markets arises in libertarian, democratic nations like the United States, and deferential, authoritarian ones like Singapore. It arises whether the welfare state is large or small, and whether the polity is expansive or restrained in its aspirations. Rule setting and the correction of market excess are necessarily public issues in social-democratic Sweden, in Christian Democratic Germany, in feudal-capitalist Japan, and in Tory Britain. The highly charged question of the proper rules undergirding a capitalist society pervaded political discourse and conflict throughout nineteenth-century America, even though the public sector then consumed less than 5 percent of the gross domestic product.

The political process, of course, can produce good sets of rules for the market, or bad ones. Thus, the quality of political life is itself a public good—perhaps the most fundamental public good. A public good, please recall, is something that markets are not capable of valuing correctly. Trust, civility, long-term commitment, and the art of consensual deliberation are the antitheses of pure markets, and the essence of effective politics.

As the economic historian Douglass North, the 1993 Nobel laureate in economics, has observed, competent public administration and governance are a source of competitive advantage for nation-states. Third-world nations and postcommunist regimes are notably disadvantaged not just by the absence of functioning markets but by the weakness of legitimate states. A vacuum of legitimate state authority does not yield efficient laissez faire; it yields mafias and militias, with whose arbitrary power would-be entrepreneurs must reckon. The marketizers advising post-Soviet Russia imagined that their challenge was to dismantle a state in order to create a market. In fact, the more difficult challenge was to constitute a state to create a market.

Norms that encourage informed civic engagement increase the likelihood of competent, responsive politics and public administration, which in turn yield a more efficient mixed economy. North writes:

> The evolution of government from its medieval, Mafia-like character to that embodying modern legal institutions and instruments is a major part of the history of freedom. It is a part that tends to be obscured or ignored because of the myopic vision of many economists, who persist in modeling government as nothing more than a gigantic form of theft and income redistribution.

Here, North is echoing Jefferson, who pointed out that property and liberty, as we know and value them, are not intrinsic to the state of nature but are fruits of effective government.

The more that complex mixed markets require a blend of evolving rules, the more competent and responsive a public administration the enterprise requires. Strong civic institutions help constitute the state, and also serve as counterweights against excesses of both state and market. Lately, the real menace to a sustainable society has been the market's invasion of the polity, not vice versa. Big money has crowded out authentic participation. Commercial values have encroached on civic values.

Unless we are to leave society to the tender mercies of laissez faire, we need a mixed economy. Even laissez faire, for that matter, requires rules to define property rights. Either way, capitalism entails public policies, which in turn are creatures of democratic politics. The grail of a market economy untainted by politics is the most dangerous illusion of our age.❑

A Global Warning

BY ROSS GELBSPAN

Global warming is now accepted by reputable scientists as a genuine and severe threat. The ten hottest years on record have all occurred since 1980, and the five hottest consecutive years began in 1991. In late 1995, the world's leading 2,500 climate scientists, reporting to the United Nations, declared that the recent heating of the atmosphere is caused by carbon emissions from oil and coal combustion, not by the natural variability of the climate.

As the heating of the atmosphere intensifies, it will increase sea levels by as much as three feet in the next century, causing disastrous floods. Warming surface waters will also fuel dramatically more powerful hurricanes, cyclones, and windstorms. The early stages of increased warming have already altered rainfall patterns. Spreading droughts are projected to threaten food-growing regions of continental interiors. And a number of infectious diseases are spreading as the world's insect populations—one of the most sensitive of all nature's systems to temperature change—migrate beyond traditional boundaries.

Global warming need not require a reduction of living standards, but it does demand a rapid shift in patterns of fuel consumption—reduced use of oil, coal, and the lighter-carboned natural gas to an economy more reliant on solar energy, fuel cells, hydrogen gas, wind, biomass, and other renewable energy sources. It is doubtful that market forces can bring about this shift, since the market price of fossil fuels does not incorporate their environmental costs. Nor can this adjustment be successfully delayed until its impacts become too disruptive to ignore. The most prevalent of all greenhouse gases—carbon dioxide—has an atmospheric lifetime of between 100 and 200 years. Even were the world to stop all coal and oil burning tomorrow, the new era of climatic instability would persist well into the next century.

The globalization of the economy, and attendant problems of its governability, have gotten much attention lately. But governance of the global environment may be the more serious challenge. For there is neither a political consensus about how rapidly to reduce carbon emissions, nor agreement on the appropriate regulatory mechanism.

The question of how to temper global warming divides along two axes. Commercially, it is pitting oil and coal industries against those that will bear the cost of inaction, notably the world's insurers. Geopolitically, it pits the developed countries—especially those dependent on oil and coal—against many developing nations and a few of the more enlightened European countries.

Negotiating under the United Nations Framework Convention on Climate Change, 153 countries hope to draft an international treaty to limit fossil fuel emissions in time for a final session scheduled for Kyoto, Japan, in December 1997. But there is a yawning disjunction between what may be politically feasible and the natural requirements of the planet's inflamed atmosphere. The most interventionist proposals on the diplomatic table call roughly for emissions cuts by the industrial nations of 10 or 15 percent below 1990 levels by the year 2010. Even those proposals are far

greater than anything the Clinton administration is willing to endorse. By contrast, atmospheric scientists generally agree it will require emissions cuts of more than 60 percent to stabilize the global atmosphere at current climatic levels.

Corporations to the Rescue?

The resistance to any mandatory emissions cuts has been led by the two-trillion-dollar oil and coal industry, in league with the governments of OPEC and other coal- and oil-exporting nations. While the fossil fuel lobby has fought to discredit each new scientific confirmation of the climate trend, the world's property insurance giants—who will pay the cost of global warming damage—are becoming more vocal in their advocacy of immediate and dramatic cuts in the burning of oil and coal.

In this decade, a series of floods, hurricanes, and other severe storms has sent property insurance losses to unprecedented levels. Insurance payouts for weather-related (non-earthquake) losses averaged less than $2 billion a year in the 1980s, totaling $17 billion for the decade, according to the German reinsurance firm of Munich Re. But between 1990 and 1995 just 16 floods, hurricanes, and storms destroyed more than $130 billion in property and insurers paid $57 billion in covered losses.

In the last 2 years, 61 of the world's largest insurance giants have signed a "Statement of Environmental Commitment," pledging themselves to incorporate considerations of climate impacts into their decisionmaking. There are early signs that the banking community is also beginning to take notice of the devastating potential of climate disruptions. At a 1995 conference on climate change for leaders of financial institutions, Sven Hansen, vice president of the Union Bank of Switzerland, called climate change the "single most important environmental problem for the world today." At the same conference, Hilary Thompson of Britain's National Westminster Bank urged bankers to "support businesses that are going to create sustainable wealth that will actually not only redress the historic harm that has [occurred] but also finance the research and development that is necessary to bring about change."

Her remarks were underscored by a recent report by London's Delphi Group, which advises large institutions on their investment policies. Delphi recommended that banks, insurers, and other large institutional investors begin to withdraw their investments from oil and coal companies, with their traditionally lucrative returns. The report noted that continuing disturbances in the global climate could easily lead to high carbon taxes and enforced reductions on oil and coal use. "As a result," noted the report's author, Mark Mansley, a former financial analyst for Chase Manhattan Bank, "climate change presents major long term risks to the carbon fuel industry [that have] not been adequately discounted by the financial markets." At the same time, the Delphi Group noted, "The alternative energy industry offers greater growth prospects than the carbon fuel industry. Diversification into this sector also offers substantial scope to offset the risks of climate change. . . ."

Last year, the Business Council for a Sustainable Energy Future took steps to position itself prominently in the international climate negotiations in order to promote development of climate-friendly alternative energy technologies. While it represents an array of small renewable energy producers, the Business Council also includes some major corporations—Honeywell, Enron, Maytag, Brooklyn Union Gas, and a number of concerned utilities.

A much more influential business group, the International Climate Change Partnership (ICCP), counts among its members such giants as General Electric, AT&T, Allied Signal, Dow Chemical, 3M, Dupont, Enron, and Electrolux. Unlike the fossil fuel industry, the ICCP accepts the findings of the world's scientists and agrees on a need for an enforceable set of carbon dioxide reductions. "The fundamental science of global warming is pretty basic," the ICCP's executive director, Kevin Fay, said in an interview. "There is some uncertainty about specific effects and impacts, but we understand that there is a long lag time for atmospheric greenhouse gases—and that it also takes a long time to develop remedies for the problem."

The ICCP wants to trade on the success of its earlier incarnation. In the 1980s its predecessor organization, composed of leading chemical companies, worked with the world's governments to achieve the Montreal Protocol, which resulted in phasing out and developing substitutes for CFCs—a class of refrigerant chemicals responsible for depleting the ozone layer. As a public-private partnership dealing with a major global environmental problem, it was a remarkable success.

Unfortunately, that same formula is not applicable to the climate crisis. For one thing, the ozone-depleting chemicals constituted a small fraction of the chemical business. Fuel for heat, energy, and transportation, by contrast, are central to our collective economic existence. For another, the same chemical companies that agreed to the ban on ozone-depleting chemicals were able to develop and market their replacements. But the world's coal and oil companies are not positioned to produce and distribute solar panels, fuel cells, hydrogen gas production facilities, and windmills.

The ICCP, unlike the world's extractive industries, thinks it can profit from the development of renewable energy technologies. But though it supports specific targets and timetables to reduce greenhouse gas emissions, it shares with the oil and coal industries a general distaste for government regulation and a preference for private-sector solutions. "Our group envisions a process that produces good information on what alternative energy technologies are out there, what developments are in the pipeline, and what the deployment of those energy sources will do to the global greenhouse gas profile," according to Fay. "The next step we need to take is to assist those technologies to become competitive."

Major corporations now recognize the danger of global warming, but market forces alone won't generate a shift to renewable energy.

However, market forces alone are unlikely to generate a shift to renewable, non-carbon energy, because of the global fault line between rich and poor nations. Even if the United States, Europe, and Japan were able to dramatically reduce their own oil and coal use, those reductions would shortly be overwhelmed by the next pulse of carbon from China, India, Mexico, Brazil, and all the developing countries, which need energy to feed and house their expanding populations and to keep themselves beyond the undertow of deepening poverty.

Virtually all the market-based mechanisms currently being considered by international negotiators involve, in one form or another, the sale of climate-friendly energy technologies to developing countries that are barely able to feed and house their populations. These countries, not surprisingly, observe that the industrial north did not pay much attention to the niceties of pollution control until after they attained high levels of consumption. So the world's poor countries, not unreasonably, want either free technology transfer or other forms of subsidy from the north in order to finance an energy transition without increasing the burden on their poor populations.

You Are What You Heat

In the climate negotiations, the postures of even the most pro-environment governments are guided by pure self-interest. The strongest position was taken by a group of small island nations calling themselves AOSIS, an acronym for Alliance of Small Island States, including the Philippines, Jamaica, the Marshall Islands, and Samoa—states that understandably fear being flooded into oblivion. AOSIS proposed a stringent emissions standard for the industrial nations of the world—a reduction by 20 percent of their 1990 greenhouse gas emissions levels by the year 2005.

Among the rich nations, Germany and Britain have proposed emissions cuts in the industrialized countries by 10 percent below 1990 levels by the year 2005 and 15 percent by the year 2020. But the United States, Australia, and OPEC charge Germany with cynically playing to its domestic constituency, which includes the largest Green Party in Europe. Germany, critics say, can readily afford to sustain a large emissions cut by virtue of West Germany's reunification in 1989 with East Germany, which is far less industrial and emits far less carbon dioxide—bringing German emissions nearly within the limits of that target with no additional hardship.

Britain, likewise, readily supports the emissions targets at no cost to British consumers, critics say. In 1991 the U.K. decided for budgetary and political reasons to terminate its program of coal subsidies and to switch, instead, to far cheaper and cleaner North Sea natural gas. So the seeming German and British high-mindedness actually involves no sacrifice, according to their critics. Even worse, they charge, the German and British positions allow room for other, poorer countries of the European Union to increase their burning of fossil fuels under an aggre-

gated European Union cap. That situation would allow some of the less affluent European countries—Ireland, Portugal, Spain, and Greece—relatively high emissions margins so they can continue to develop their own economies with no cuts to their own fossil fuel consumption. And if, as anticipated, the E.U. expands by another 15 countries to include a number of former communist nations in eastern Europe, the combined cap for an enlarged E.U. would also provide them even more latitude to increase greenhouse emissions.

German officials counter that their citizens are bearing a significant tax burden to help finance an environmentally friendly reindustrialization of East Germany, costs that would be unacceptable to Americans. And British officials say that, whatever their initial motivations, they have in the last two years come to regard the climate crisis as very real and worthy of strong international action. Britain's environmental secretary, John Gummer, went so far as to call for an emissions reduction target of 50 percent beginning with an end to all subsidies for oil and coal use. "There is no point," he said, "in seeking to mitigate the effects of carbon dioxide while providing an inducement for people to use more."

Other members of the E.U. have gone their own ways. Denmark has already enacted a carbon tax as well as efficiency standards for its utilities in order to attain a 20 percent emissions reduction below 1990 levels by 2005. And the Netherlands has declared it intends to stabilize its emissions at 1990 levels by 2000 and reduce them by 3 percent five years later. By contrast, Norway, with its lucrative North Sea oil reserves, wants no emissions limits at all.

But the divisions within Europe pale before the yawning split between the wealthy world and the poverty-stressed, less-developed giants like India, China, Brazil, and Mexico. While the United States, Europe, and Japan can afford to give at least lip service to the high priority of the climate issue, the large developing countries, fighting to keep their economies above water, cannot. And until the issue of international equity between the world's wealthy and poor countries is addressed with some degree of authenticity, no developing country will adhere to any agreement that restricts its energy consumption.

Many Western diplomats attribute the recalcitrance of countries like China and India to an attitude of indifference to the planet. But that cynical dismissal lets the northern countries off the hook in two respects. It ignores the fact that industrial countries consume the lion's share of fossil fuels. And it minimizes the leadership that the United States and its developed allies could exert if they chose to make a priority policies that reconcile economic development of poor countries with concerns for the global environment. The developing nations will likely reject any international agreement that does not address their own overriding issues of poverty and underdevelopment.

Progress and Poverty

Under the terms of the United Nations Climate Convention, any target for reducing coal and oil emissions would apply, initially, to only the world's industrialized countries. But diplomats envision subsequent similar restrictions for the world's poor countries, since it is clear the developing world will not be able to continue the potentially catastrophic growth of their own fossil fuel burning.

The climate crisis requires both measures by the industrial north to reduce fossil fuel consumption, as well as a transfer of wealth—in the form of new energy technologies—to assist the poorer countries to leapfrog beyond carbon fuels to an industrialization powered by renewable energy sources. Without such assistance, there is very little hope of avoiding a doubling—and probably a tripling—of atmospheric carbon dioxide concentrations. Today, for instance, as it staggers under the pressure of an increasingly fragile food supply and diminishing water resources, the government of China at this point sees no alternative to promoting its own economic growth as rapidly as possible. While energy consumption in the United States, Europe, and Japan rose by about 28 percent between 1970 and 1990, it rose by almost 10 times that amount—208 percent—during the same period in China. Under current estimates, moreover, Chinese coal consumption—which equaled that of the United States in 1990—will more than double America's ten years from now.

The situation in China is so bad it is sparking alarm even among its government researchers, despite the regime's commitment to rapid growth powered by conventional energy. Oceanographers with China's State Oceanic Administration estimate that rising sea levels will trigger massive flooding if current trends continue. "Sea levels will rise up to three feet during the twenty-first century,"' said Du Bilan, an agency official. Without a massive pro-

gram to build coastal-protection bulwarks and seawalls, the researchers project that economic losses from a 12-inch rise in sea level would be devastating "since coastal areas are home to about half of China's cities and 40 percent of the country's total population of 1.2 billion," Du said.

And China, as large as it is, is only one of many sources of the emerging Asian boom in greenhouse gas emissions. In May 1996, the environment ministry of Japan estimated that emissions of carbon dioxide and other greenhouse gases from 15 Asian nations will more than double in 30 years—a projected increase of 150 percent of 1990 levels by the year 2025. Using data from other Asian countries as well as from the World Bank, the Japanese report noted that the greenhouse emissions from the region will account for 36 percent of the world's emissions by the year 2025 and for 50 percent by the end of the next century.

The massive gap in economic pressures and priorities between northern and southern countries is more than the source of diplomatic deadlock. It has provided a most useful wedge for those who most want the negotiations to fail. Throughout the ongoing negotiations, the OPEC nations and their industry allies have warned the large developing nations that the "climate scare" is based on flawed science and is basically a plot by the wealthy countries to keep them relatively poor. Consequently, they have urged those large developing giants to accept nothing but the most minimal future restrictions. At the same time, the OPEC nations and the representatives of the oil and coal industry have put the United Nations on notice that they will accept no restrictions that do not fall equally heavily on the developing world. Anything less, they argue, is fundamentally unfair to fossil fuel producers, whose income depends on their sales of oil and coal.

> The divisions within Europe pale before the yawning split between the wealthy world and poverty-stressed, less-developed countries.

It is a strategy designed to guarantee the failure of the climate negotiations. The rich nations have built their industrial wealth on fossil fuel consumption. Any attempt to impose the same restrictions on the poor countries—whose per capita consumption of coal and oil has been but a fraction of ours—amounts to "environmental colonialism," according to Sunita Narain, an Indian researcher and co-author of a report titled, "Global Warming in an Unequal World." This idea of environmental colonialism, of course, is precisely what the fossil fuel lobby pitches to developing countries. The success of the negotiating tactics of Saudi Arabia and Kuwait, in league with representatives of the U.S. oil and coal industry, has, in effect, precluded negotiators from moving forward on any truly meaningful measures.

Given this backdrop of nearly stalemated diplomatic and economic agendas, it is understandable that U.S. Undersecretary of State Timothy Wirth called it a "big deal" last July when he announced that the United States would support some level—albeit minimal—of mandatory emissions reductions. It is not only Wirth who thinks so paltry a response to the disruption of the global climate is a "big deal." Clearly the oil and coal lobby think so as well. That is why they are feverishly mobilizing key leaders in Congress to defeat the ratification of any treaty that requires those mandatory cuts.

All of this, in the end, leaves the resolution of perhaps the most ominous environmental problem ever confronting humanity to the mercy of the global marketplace. Under the current scenario, our ability to avert a climate disaster may well depend on whether we can get China to buy our conservation technologies, whether we can sell our solar panels to Brazil and our windmills to India, and whether our marketing experts can persuade the poor governments of the world to put the nutritional and medical and educational needs of their people on hold and divert their overstretched resources to revamping their national energy systems with technologies we will sell them at the right price.

Meanwhile, the world's glaciers are melting, the world's oceans are warming, plants and insects are migrating northward, the zooplankton are dying in the Pacific Ocean, the Antarctic ice shelves are breaking up, and the planet continues to heat at a faster rate than at any time in the last ten thousand years.❑

BEDSIDE MANNA

MEDICINE TURNED UPSIDE DOWN

BY DEBORAH A. STONE

For more than 150 years, American medicine aspired to an ethical ideal of the separation of money from medical care. Medical practice was a money-making proposition, to be sure, and doctors were entrepreneurs as well as healers. But the lodestar that guided professional calling and evoked public trust was the idea that at the bedside, clinical judgment should be untainted by financial considerations.

Although medicine never quite lived up to that ideal, the new regime of managed care health insurance is an epic reversal of the principle. Today, insurers deliberately try to influence doctors' clinical decisions with money—either the prospect of more of it or the threat of less. What's even more astounding is that this manipulation of medical judgment by money is no longer seen in policy circles as a corruption of science or a betrayal of the doctor-patient relationship. Profit-driven medical decisionmaking is extolled as the path to social responsibility, efficient use of resources, and even medical excellence.

How did such a profound cultural revolution come about? What does the new culture of medicine mean for health care? And where does it leave the welfare state and the culture of solidarity on which it rests when the most respected and essential caregivers in our society are encouraged to let personal financial reward dictate how they pursue patients' welfare?

MONEY AND MEDICINE

Before the mid-nineteenth century, the business relationship between doctors and patients was simple: The patient paid money in exchange for the doctor's advice, skill, and medicines. However, to win acceptance as professionals and be perceived as something more than commercial salesmen, doctors needed to persuade the public

that they were acting out of knowledge and altruism rather than self-interest and profit. Organized medicine built a system of formal education, examinations, licensing, and professional discipline, all meant to assure that doctors' recommendations were based on medical science and the needs of the patient, rather than profit seeking.

In theory, this system eliminated commercial motivation from medicine by selecting high-minded students, acculturating them during medical training, and enforcing a code of ethics that put patients' interests first. In practice, medicine remained substantially a business, and no one behaved more like an economic cartel than the American Medical Association. The system of credentialing doctors eventually eliminated most alternative healers and, by limiting the supply of doctors, enhanced the profitability of doctoring. Nonetheless, medical leaders espoused the ideal and justified these and other market restrictions as necessary to protect patients' health, not doctors' incomes.

It took the growth of health insurance to create a system in which a doctor truly did not need to consider patients' financial means in weighing their clinical needs, so long as the patient was insured. As Columbia University historian David Rothman has shown, private health insurance was advertised to the American middle class on the promise that it would neutralize financial considerations when people needed medical care. Blue Cross ads hinted darkly that health insurance meant not being treated like a poor person—not having to use the public hospital and not suffering the indignity of a ward. Quality of medical care, the ads screamed between the lines, was indeed connected to money, but health insurance could sever the connection.

By 1957, the AMA's Principles of Medical Ethics forbade a doctor to "dispose of his services under terms or conditions that tend to interfere with or impair the free and complete exercise of his medical judgment or skill. . . ." This statement was the apotheosis of the ethical ideal of separating clinical judgment from money. It symbolized the long struggle to make doctoring a scientific and humane calling rather than a commercial enterprise, at least in the public's eyes if not always in actual fact. But the AMA never acknowledged that fee-for-service payment, the dominant arrangement and the only payment method it approved at the time, might itself "interfere with" medical judgment.

Meanwhile, as costs climbed in the late 1960s, research began to show that fee-for-service payment seemed to induce doctors to hospitalize their patients more frequently compared to other payment methods such as flat salaries, and that professional disciplinary bodies rarely, if ever, monitored financial conflicts of interest. Other research showed that the need for medical services in any given population was quite elastic, often a matter of discretion, and that doctors could diagnose enough needs for their own and their hospitals' services to keep everybody running at full throttle.

Still, the cultural premise of these controversies expressed a clear moral imperative: Ethical medicine meant money should not be a factor in medical decisionmaking. The new findings about money's influence on medicine were accepted as muck that needed raking. Occasional exposés of medical incentive schemes—for example, bonuses from drug and device companies for prescribing their products or kickbacks for referrals to diagnostic testing centers—were labeled "fraud and abuse" and branded as outside the pale of normal, ethical medicine.

The Path Not Taken

Sooner or later, the ideal of medical practice untainted by financial concerns had to clash with economic reality. Everything that goes into medical care is a resource with a cost, and people's decisions about using resources are always at least partly influenced by cost. By the 1970s, with health care spending hitting 9 percent of the gross national product (GNP) and costs for taxpayers and employers skyrocketing, America perceived itself to be in a medical cost crisis. Doctors and hospitals, however, resisted cost control measures. By the late 1980s, neither the medical profession, the hospitals, the insurers, nor the government had managed to reconcile the traditional fee-for-service system with cost control, even though the number of people without health insurance grew steadily.

During these decades, a pervasive antigovernment sentiment and a resurgence of laissez-faire capitalism on the intellectual right combined to push the United States toward market solutions to its cost crisis. Other countries with universal pub-

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lic-private health insurance systems have watched their spending rise, too, driven by the same underlying forces of demographics and technology. But unlike the U.S., they rely on organized cooperation and planning to contain costs rather than on influencing individual doctors with financial punishment or reward. Some national health systems pay each doctor a flat salary, which eliminates the financial incentive to over-treat, though it might create a mild incentive to under-treat. Systems with more nearly universal health insurance schemes also eliminate expensive competition between insurers, because there is no outlay for risk selection, marketing, or case-by-case pretreatment approval, and far less administrative expense generally.

Countries with comprehensive systems typically plan technology acquisition by doctors and hospitals to moderate one of the chief sources of medical inflation. Most also limit the total supply of doctors, or of specialists, through higher-education policy. They may restrict doctors' geographic location in order to meet needs of rural areas and dampen excess medical provision in cities. Most countries with universal systems have some kind of global budget cap. But the difficult medical trade-offs within that budget constraint are made by clinicians under broad general guidelines, and not on the basis of commercial incentives to individual doctors facing individual patients. Significantly, although government is usually a guiding force in these systems, planning is done by councils or commissions that represent and cooperate with doctors, hospitals, other professions, medical suppliers, insurers, unions, and employer associations.

Sooner or later, the ideal of medical practice untainted by financial concerns had to clash with economic reality.

The distinctive feature of the emerging American way of cost control is our reliance on market competition and personal economic incentive to govern the system. For the most part, such incentives are contrived by insurers. In practice, that has meant insurers have far more power in our system than in any other, and it has meant that they insert financial considerations into medical care at a level of detail and personal control unimaginable in any other country.

RECONFIGURING THE ROLE OF MONEY

The theorists of market reform reversed the traditional norm that the doctor-patient relationship should be immune to pecuniary interests. Law professor Clark Havighurst, HMO-advocate Paul Ellwood, and economist Alain Enthoven and their disciples celebrated the power of financial motivation to economize in medical care. In the process, they elaborated a moral justification for restoring money to a prominent place in the doctor's mind.

In what is probably the single most important document of the cultural revolution in medical care, Alain Enthoven began his 1978 Shattuck Lecture to the Massachusetts Medical Society by explaining why he, an economist, should be giving this distinguished lecture instead of a doctor. The central problem of medicine, he said, was no longer simply how to cure the sick, eliminate quackery, and achieve professional excellence, but rather how people could "most effectively use their resources to promote the health of the population." Enthoven dismissed government regulation as ineffective. The key issue was "how to motivate physicians to use hospital and other resources economically." It was time, he concluded, for doctors to look beyond the biological sciences as they crafted the art of medicine, and to draw on cost-effectiveness analysis.

In Enthoven's vision, researchers would incorporate cost-benefit calculations into clinical guidelines; health plans would give doctors incentives to follow these guidelines; and if patients were allowed to shop for plans in an open market, the most efficient plans would win greater market share. We could succeed in "Cutting Costs Without Cutting the Quality of Care," as the title of his lecture promised. The ultimate safeguard against financial temptations to skimp on quality or quantity of care, according to Enthoven, was "the freedom of the dissatisfied patient to change doctors or health plan."

In market theory, consumers are the disciplinary force that keeps producers honest. In applying classical market theory to medicine, theorists such as Havighurst and Enthoven confused consumer with payer. By the late 1970s, when medical care

was paid for by private and public insurers or by charity, patient and payer were seldom the same person.

Precisely this ambiguity about the identity of the consumer gave market rhetoric its political appeal. It papered over a deep political conflict over who would control medical care—insurers, patients, doctors, or government. Market imagery suggested to insurers and employers that they, as purchasers of care, would gain control, while it suggested to patients that they, as consumers of care, would be sovereign. For a brief while in the 1970s and 1980s, the women's health movement and a Ralph Nader-inspired health consumer movement adopted market rhetoric, too, thinking that consumer sovereignty would empower patients vis-à-vis their doctors. For their part, many doctors came to accept the introduction of explicit financial incentives into their clinical practice, because, they were told, it was the only alternative to the bogey of government regulation. ("Health care spending will inevitably be brought under control," warned Enthoven in his Shattuck Lecture. "Control could be effected voluntarily by physicians in a system of rational incentives, or by direct economic regulation by the government.")

Enthoven's early approach relied only partly on the discipline of personal reward or punishment for doctors. He also advocated doing more research on cost-effectiveness and educating of doctors to make better use of scarce resources. And like Ellwood, Havighurst, and most advocates of market competition in medicine, Enthoven recognized the differences between medicine and ordinary commerce when he argued that competition had to be regulated in order to limit opportunism and enable patients to discipline insurance plans. But the heavy overlay of regulation originally envisioned by Enthoven and others was not established. While some HMOs have been more diligent than others in bringing quality and outcomes research to bear on medical practice, *monetary incentives have become the paramount form of cost discipline.*

Remaking the Doctor as Entrepreneur

Today, financial incentives on doctors are reversed. Instead of the general incentives of fee-for-service medicine to perform more services and procedures, contractual arrangements between payers and doctors now exert financial pressures to do less. These pressures affect every aspect of the doctor-patient relationship: how doctors and patients choose each other, how many patients a doctor accepts, how much time he or she spends with them, what diagnostic tests the doctor orders, what referrals the doctor makes, what procedures to perform, which of several potentially beneficial therapies to administer, which of several potentially effective drugs to prescribe, whether to hospitalize a patient, when to discharge a patient, and when to give up on a patient with severe illness.

In most HMOs, doctors are no longer paid by one simple method, such as salary, fee-for-service, or capitation (a fixed fee per patient per year). Instead, the doctor's pay is linked to other medical expenditures through a system of multiple accounts, pay withholding, rebates, bonuses, and penalties. Health plans typically divide their budget into separate funds for primary care services, specialists, hospital care, laboratory tests, and prescription drugs. The primary care doctors receive some regular pay, which may be based on salary, capitation, or fee-for-service, but part of their pay is calculated after the fact, based on the financial condition of the other funds. And there's the rub.

Studies of HMOs by Alan Hillman of the University of Pennsylvania found that two-thirds of HMOs routinely withhold a part of each primary care doctor's pay. Of the plans that withhold, about a third withhold less than 10 percent of the doctor's pay and almost half withhold between 11 and 20 percent. A few withhold even more. These "withholds" are the real financial stick of managed care, because doctors are told they may eventually receive all, part, or none of their withheld pay. In some HMOs, the rebate a doctor receives depends solely on his or her own behavior—whether he or she sent too many patients to specialists, ordered too many tests, or had too many patients in the hospital. In other plans, each doctor's rebate is tied to the performance of a larger group of doctors. In either case, doctors are vividly aware that a significant portion of their pay is tied to their willingness to hold down the care they dole out.

Withholding pay is itself a strong influence on doctors' clinical decisions, but other mechanisms tighten the screws even further. Forty percent of HMOs make primary care doctors pay for patients' lab tests out of their own payments or from a combined fund for primary care doctors and outpatient tests. Many plans (around 30 per-

cent in Hillman's original survey) impose penalties on top of withholding, and they have invented penalties with Kafka-esque relish: increasing the amount withheld from a doctor's pay in the following year, decreasing the doctor's regular capitation rate, reducing the amount of rebate from future surpluses, or even putting liens on a doctor's future earnings. A doctor's pay in different pay periods can commonly vary by 20 to 50 percent as a result of all these incentives, according to a 1994 survey sponsored by the Physician Payment Review Commission.

Managed Care returns doctors to the role of salesmen—but now they are rewarded for selling fewer services, not more.

Of course, not all HMOs provide financial incentives that reward doctors for denying necessary care. In principle, consumers could punish managed care plans that restricted clinical freedoms, and doctors could refuse to work for them. But as insurers merge and a few gain control of large market shares, and as one or two HMOs come to dominate a local market, doctors and patients may not have much choice about which ones to join. The theorists' safeguards may prove largely theoretical.

In the early managed-market theory of Enthoven and others, the doctor was supposed to make clinical decisions on the basis of cost-effectiveness analysis. That would mean considering the probability of "success" of procedure, the cost of care for each patient, and the benefit to society of spending resources for this treatment on this patient compared to spending them in some other way. But in the new managed care payment systems, financial incentives do not push doctors to think primarily about cost-effectiveness but rather to think about the effect of costs on their own income. Instead of asking themselves whether a procedure is medically necessary for a patient or cost-effective for society, they are led to ask whether it is financially tolerable for themselves. Conscientious doctors may well try to use their knowledge of cost-effectiveness studies to help them make the difficult rationing decisions they are forced to make, but the financial incentives built into managed care do not in themselves encourage anything but personal income maximization. Ironically, managed care returns doctors to the role of salesmen—but now they are rewarded for selling fewer services, not more.

Who Cares?

Because doctors in managed care often bear some risk for the costs of patient care, they face some of the same incentives that induce commercial health insurance companies to seek out healthy customers and avoid sick or potentially sick ones. In an article in *Health Affairs* last summer, David Blumenthal, chief of health policy research and development at Massachusetts General Hospital, explained why his recent bonuses had varied:

> Last spring I received something completely unexpected: a check for $1,200 from a local health maintenance organization (HMO) along with a letter congratulating me for spending less than predicted on their 100 or so patients under my care. I got no bonus the next quarter because several of my patients had elective arthroscopies for knee injuries. Nor did I get a bonus from another HMO, because three of their 130 patients under my care had been hospitalized over the previous six months, driving my actual expenditures above expected for this group.

Such conscious linking of specific patients to paychecks is not likely to make doctors think that their income depends on how cost-effectively they practice, as market theory would have it. Rather, they are likely to conclude, with some justification, that their income depends on the luck of the draw—how many of their patients happen to be sick in expensive ways. The payment system thus converts each sick patient, even each illness, into a financial liability for doctors, a liability that can easily change their attitude toward sick patients. Doctors may come to resent sick people and to regard them as financial drains.

Dr. Robert Berenson, who subsequently became co-medical director of an HMO, gave a moving account of this phenomenon in the *New Republic* in 1987. An elderly woman was diagnosed with inoperable cancer shortly after she enrolled in a Medicare managed care plan with him as her primary care

doctor, and her bills drained his bonus account:

> At a time when the doctor-patient relationship should be closest, concerned with the emotions surrounding death and dying, the HMO payment system introduced a divisive factor. I ended up resenting the seemingly unending medical needs of the patient and the continuing demands placed on me by her distraught family. To me, this Medicare beneficiary had effectively become a "charity patient."

Thus do the financial incentives under managed care spoil doctors' relationships to illness and to people who are ill. Illness becomes something for the doctor to avoid rather than something to treat, and sick patients become adversaries rather than subjects of compassion and intimacy.

Here is also the source of the most profound social change wrought by the American approach to cost containment. Health insurance marketing from the 1930s to the 1950s promised subscribers more reliable access to high-quality care than they could expect as charity patients. But as it is now evolving, managed care insurance will soon render all its subscribers charity patients. By tying doctors' income to the cost of each patient, managed care lays bare what was always true about health insurance: The kind of care sick people get, indeed whether they get any care at all, depends on the generosity of others.

Insurance, after all, is organized generosity. It always redistributes from those who don't get sick to those who do. Classic indemnity insurance, by pooling risk anonymously, masking redistribution, and making the users of care relatively invisible to the nonusers, created the illusion that care was free and that no one had to be generous for the sick to be treated. It was a system designed to induce generosity on the part of doctors and fellow citizens. But managed care insurance, to the extent it exposes and highlights the costs to others of sick people's care, is calculated to dampen generosity.

Putting the Doctor-Businessman to Work

The insulation of medical judgment from financial concerns was always partly a fiction. The ideal of the doctor as free of commercial influence was elaborated by a medical profession that sought to expand its market and maintain its political power and autonomy. Now, the opposite ideal—the doctor as ethical businessman whose financial incentives and professional calling mesh perfectly—is promoted in the service of a different drive to expand power and markets.

Corporate insurers use this refashioned image of the doctor to recruit both doctors and patients. The new image has some appeal to doctors, in part because it acknowledges that they need and want to make money in a way the old ethical codes didn't, and in part because it conveys a (false) sense of independence at a time when clinical autonomy is fast eroding. Through financial incentives and requirements for patients to get their treatments and tests authorized in advance, insurers are taking clinical decisions out of doctors' hands. Hospital length-of-stay rules, drug formularies (lists of drugs a plan will cover), and exclusive contracts with medical-device suppliers also reduce doctors' discretion.

In contrast to this reality of diminished clinical authority, images of the doctor as an entrepreneur, as a risk taker, as "the 'general manager' of his patient's medical care" (that's Enthoven's sobriquet in his Shattuck Lecture) convey a message that clinical doctors are still in control. If they practice wisely, in accord with the dictates of good, cost-effective medicine, they will succeed at raising their income without cutting quality. HMOs have long exploited this imagery of business heroism to recruit physicians. Here's Stephen Moore, then medical director of United Health Care, explaining to doctors in the *New England Journal of Medicine* in 1979 how this new type of HMO would help them fulfill "their desire to control costs" while keeping government regulation at bay:

> Incentives encourage the primary-care physician to give serious consideration to his new role as the coordinator and financial manager of all medical care. . . . Because accounts and incentives exist for each primary-care physician, the physician's accountability is not shared by other physicians, even among partners in a group practice. . . . Each physician is solely responsible for the efficiency of his own health care system. . . . In essence, then, the individual primary-care physician becomes a one-man HMO.

The image of entrepreneur suggests that doctors' success depends on their skill and acumen as managers. It plays down the degree to which their financial success and ability to treat all patients conscien-

tiously depend on the mix of sick and costly patients in their practices and the practices of other doctors with whom they are made to share risks.

The once negative image of doctor-as-businessman has been recast to appeal to patients, too, as insurers, employers, and Medicare and Medicaid programs try to persuade patients to give up their old-style insurance and move into managed care plans. Doctors, the public has been told by all the crisis stories of the past two decades, have been commercially motivated all along. They exploited the fee-for-service system and generous health insurance policies to foist unnecessary and excessive "Cadillac" services onto patients, all to line their own pockets. Patients, the story continues, have been paying much more than necessary to obtain adequate, good-quality medical care. But now, under the good auspices of insurers, doctors' incentives will be perfectly aligned with the imperatives of scientifically proven medical care, doctors will be converted from bad businessmen to good, and patients will get more value for their money.

If patients knew how much clinical authority was actually stripped from their doctors in managed care plans, they might be more reluctant to join. The marketing materials of managed care plans typically exaggerate doctors' autonomy. They tell potential subscribers that their primary care doctor has the power to authorize any needed services, such as referral to specialists, hospitalization, x-rays, lab tests, and physical therapy. Doctors in these marketing materials "coordinate" all care, "permit" patients to see specialists, and "decide" what care is medically necessary. Meanwhile, the actual contracts often give HMOs the power to authorize medically necessary services, and more importantly, to define what services fall under the requirements for HMO approval.

In managed care brochures, doctors not only retain their full professional autonomy, but under the tutelage of management experts, they work magic with economic resources. Through efficient management, they actually increase the value of the medical care dollar. "Because of our expertise in managing health care," a letter to Medicare beneficiaries from the Oxford Medicare Advantage plan promised, "Oxford is able to give you *100% of your Medicare benefits and much, much more*" [emphasis in original]. Not a word in these sales materials about the incentives for doctors to deny expensive procedures and referrals, nor in some cases, the "gag clauses" that prevent doctors from telling patients about treatments a plan won't cover.

In an era when employers and governments are reducing their financial commitments to workers and citizens, the image of the doctor as efficient manager is persuasive rhetoric to mollify people who have come to expect certain benefits. To lower their costs, employers are cutting back on fringe benefits and shifting jobs to part-time and contract employees, to whom they have no obligation to provide health insurance. The federal and state governments are similarly seeking to cut back the costs of Medicare and Medicaid. The image of the doctor as an efficient manager—someone who can actually increase the value to patients of the payer's reduced payments—helps gain beneficiaries' assent to reductions in their benefits. Thus, the cultural icon of doctor-as-businessman has become a source of power for employers and governments as they cut back private and public social welfare commitments.

The old cultural ideal of pure clinical judgment without regard to costs or profits always vibrated with unresolved tensions. It obscured the reality that doctoring was a business as well as a profession and that medical care costs money and consumes resources. But now that commercial managed care has turned doctors into entrepreneurs who maximize profits by minimizing care, the aspirations of the old ideal are worth reconsidering.

In trying to curb costs, we should not economize in ways that subvert the essence of medical care or the moral foundations of community. There is something worthwhile about the ideal of medicine as a higher calling with a healing mission, dedicated to patients' welfare above doctors' incomes and committed to serving people on the basis of their needs, not their status. If we want compassionate medical care, we have to structure both medical care and health insurance to inspire compassion. We must find a way, as other countries have, to insure everybody on relatively equal terms, and thus divorce clinical decisions from the patient's pocketbook and the doctor's personal profit. This will require systems that control expenditures, as other countries do, without making doctor and patient financial adversaries. There is no perfect way to reconcile cost containment with clinical autonomy, but surely, converting the doctor into an entrepreneur is the most perverse strategy yet attempted.□

CAN NEW LABOUR DANCE THE CLINTON?

BY STEVEN M. TELES

For the first time in 18 years, Britain, barring some cataclysm, will soon elect a left-of-center government. Starting with their name and extending to a wide range of policy and rhetorical stances, Tony Blair's New Labour Party has much in common with Bill Clinton's New Democrats. Even before the recent changes in the Democratic and Labour parties, comparisons between the politics of the United States and Britain were commonplace, and both countries look for intimations of the future across the Atlantic. Just as Margaret Thatcher's victory over Labour in 1979 foreshadowed Ronald Reagan's victory in 1980, many in Britain see Clinton's repeated electoral success as evidence of a shift to the left in the public mood and as a weariness with conservatism, Clinton's own centrist drift notwithstanding.

With all these similarities, it is too easy to forget just how different the two countries are, and in particular how different the Labour Party of Tony Blair is from the Democratic Party of Bill Clinton. The most obvious difference is that the right wing of the Labour Party is far to the left of the right of the Democratic Party. Those on the Labour right would be mainstream Democrats, while the most right-wing Democrats would be firmly in the Thatcherite wing of the Conservative Party. Labour, for all its recent changes, is an authentically left-wing party, while the Democrats will always be an uneasy alliance between the left and more conservative forces.

Perhaps even more important than their internal differences are the structural settings in which the two parties operate. Britain is a midsized country that must accept terms of global, political, and economic reality that it has little hand in creating. The United States, on the other hand, is the most powerful country in the world, able to influence the terms of financial, economic, and political competition. In the United States, the Democratic Party's conservative elements and institutional checks and balances radically limit the range of policies that can receive a serious hearing, whereas Britain's parliamentary system, and the Labour Party's socialist tradition, mean that the Labour Party can consider a very wide range of social and economic policies, but is tightly constrained in what it can implement by its position in the global system.

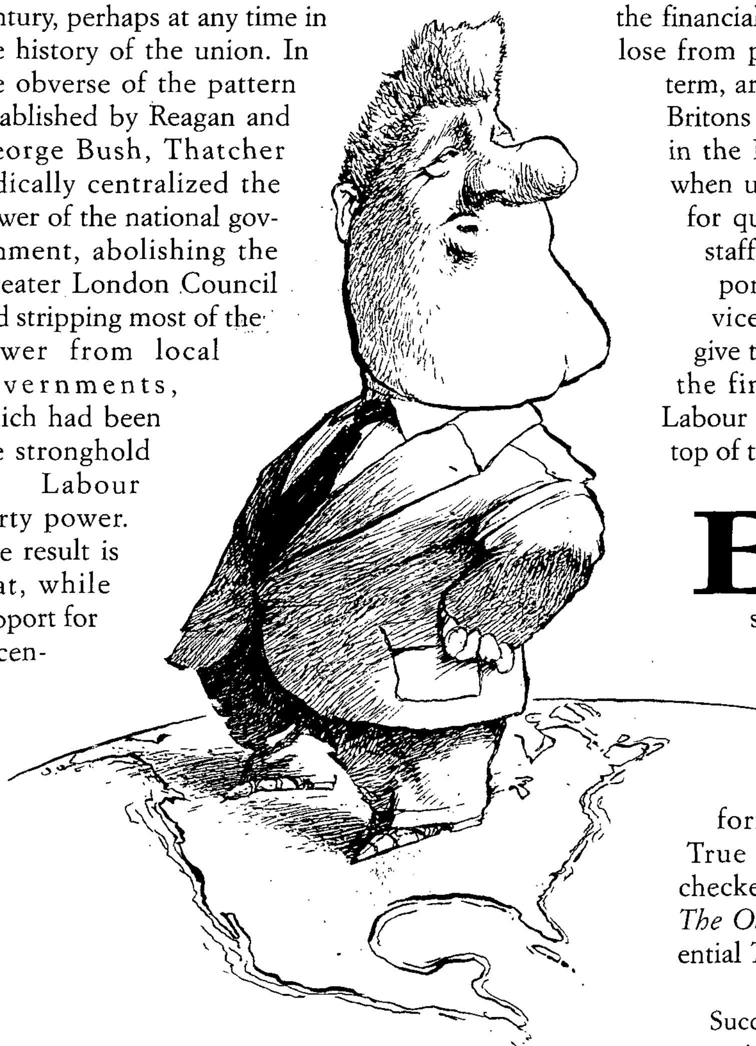
In both cases the consequence is effectively the same: practical acceptance of the status quo in economic policy. But this constriction of economic possibility leads to greater attention to both political and welfare state reform, which, under current conditions, are the only tools that

the Democrats and Labour have for influencing economic outcomes.

Why Whitehall Isn't Washington

The political structures in which the two parties work are dramatically different. In the U.S., power is shared by the national government and the states, and some of the most important government functions, such as education and criminal justice, are almost exclusively state affairs. In the U.K., on the other hand, government is more centralized: Education and crime fighting are matters for the central government.

In fact, as the British journalist Simon Jenkins argues in *Accountable To None*, the U.K. government is more nationalized now than at any time in the twentieth century, perhaps at any time in the history of the union. In the obverse of the pattern established by Reagan and George Bush, Thatcher radically centralized the power of the national government, abolishing the Greater London Council and stripping most of the power from local governments, which had been the stronghold of Labour Party power. The result is that, while support for decentralization is a strong theme of both the Labour and Democratic parties, its meaning is considerably different. In the United States, support for decentralization, as in Clinton's signing of the welfare bill, is a capitulation to the principles of the Republican Party. In Britain, however, it is a powerful attack on Tory power. While Labour supports devolution partially in order to "deepen" democracy and strengthen participation—themes present in New Democrat thinking—the impact of moving power away from Whitehall will be to expand government, not contract it.



Political reform in Britain is central to the concerns of the Labour Party in part because that's the only place it has room to maneuver. Reform of the British political system is one of the few areas where Labour can make substantial changes in British life without spending money or disrupting the financial markets. And those who do stand to lose from political reform, at least in the short term, are not terribly sympathetic figures: Few Britons will shed a tear when hereditary peers in the House of Lords lose their power, or when unelected "quangos"—the British term for quasi-nongovernmental organizations—staffed mainly by Conservative Party supporters, are supplanted in delivering services by local government. Policies that give the impression of action without roiling the financial markets or diminishing the Labour Party's popularity tend to move to the top of the agenda.

But reforming the political system is important for more than just political reasons. The structure of the state is the linchpin of the regime, embodying in its form a nation's understanding of power and its uses. The British regime emphasizes the indivisibility of power, in the form of the sovereignty of Parliament. True power is concentrated—shared or checked by no one. Will Hutton, editor of *The Observer* and author of the highly influential *The State We're In*, argues that:

> Successful capitalism and socially cohesive societies at bottom incorporate the idea of membership; that workers are members of

> firms and that individuals are citizens of the state. The two conceptions go hand in hand—but not in Britain. Here Parliament and the firm are sovereign; individuals are subjects and workers.

It is conceivable that by breaking up the British state, through devolving power to regions or local governments, and by creating some check on the power of Parliament—such as a written constitution, a strong committee system, or a democratically legitimate House of Lords—the symbolic structure of the British regime could be altered. Over time, changes in the structure of the state could alter the prevailing conception of power, legitimizing notions of shared power in the economy.

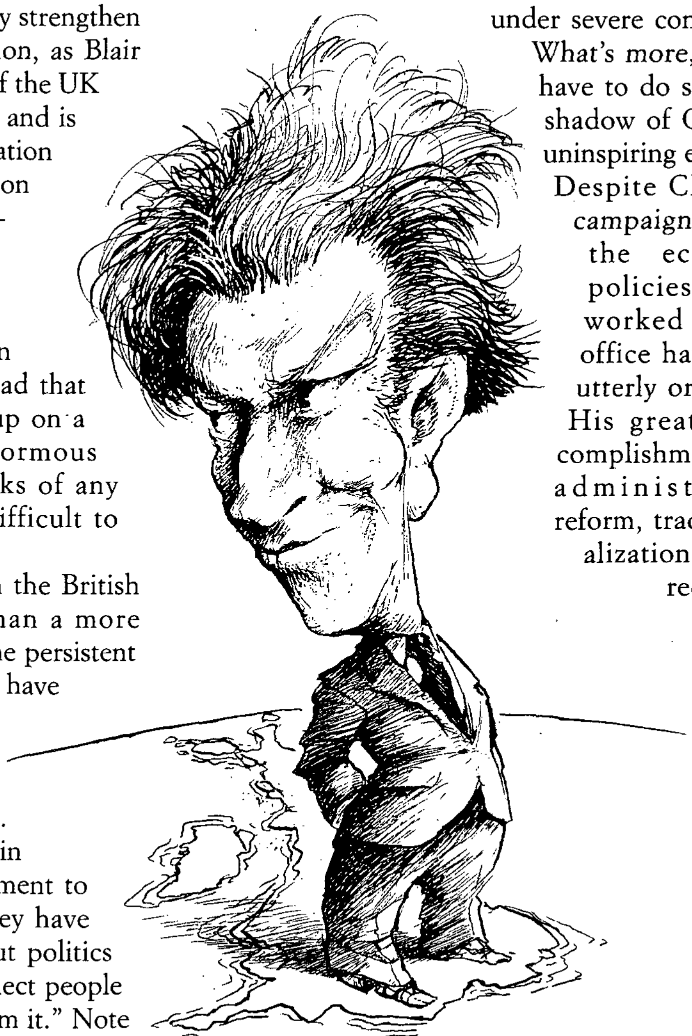
Decentralization of the more mundane functions of government away from the center and toward regions or localities may actually strengthen the national state in Britain. Devolution, as Blair observes, "will be good for the whole of the UK as it brings power closer to the people and is part of a wider process of decentralisation which allows the center to concentrate on the strategic needs of the whole country." Currently, virtually any problem anywhere in the United Kingdom—whether it's a dog that bites a woman in Manchester, or a prescription improperly filled in Glasgow, or a road that needs fixing in Cardiff—could end up on a minister's desk. This places an enormous weight of minor affairs on the backs of any British government, and makes it difficult to focus on a larger, national agenda.

Centralized government, at least in the British case, is also likely to be weaker than a more devolved system, because it is under the persistent suspicion of the people, who feel they have little say in or control over it. This explains the very different meaning of Blair's echo of Clinton: "The era of big, centralised government is over. Ordinary people have lost confidence in the ability of a distant central government to offer solutions to their problems. They have become unprecedentedly cynical about politics and politicians. . . . If we are to reconnect people to the political system we have to reform it." Note the importance of Blair's addition of the term "centralised" to Clinton's bon mots. Big government itself is not necessarily obsolete, but big centralized government is.

It may be that significant economic policy or welfare state change must be preceded by political reform. Voters in both Britain and the United States are suspicious of the capacity of the state to effect substantial positive social change. More money or more authority for the state will only come, both in the U.S. and the U.K., after the state shows itself to be a more reliable tool for the implementation of the people's will.

In the Shadow of Clintonomics

But New Labour will be judged principally by its success in improving British economic performance. It cannot wait until its political reform proposals become effective. Blair will have to set out a workable economic policy under severe constraints. What's more, he will have to do so in the shadow of Clinton's uninspiring example. Despite Clinton's campaign claims, the economic policies he has worked for in office have been utterly orthodox. His greatest accomplishments are administrative reform, trade liberalization, deficit reduction,



and acceptance of restrained monetary policy. Promises of a large shift of spending from redistribution to investment have not yet come to pass. Or, to be more to the point, we got the cut in public consumption (primarily in programs for the poor), but not the corresponding increase in public investment.

Like Blair, Clinton started out with a fairly sweeping metaphor for economic change: "public investment." The idea was that in a modern global economy, direct regulation of capital was likely to be ineffectual or detrimental to market efficiency. Capital had to be encouraged to locate in the U.S. by America's highly educated citizens, the quality of its physical infrastructure, the safety and decency of its social life, and the efficiency and responsiveness of its government. Dramatically shifting government activity from consumption and redistribution to savings and investment would give the nation the upper hand in the battle for capital.

> It is too easy to forget just how different Tony Blair's Labour Party is from Bill Clinton's Democratic Party.

In practice little was done to implement this vision, largely because the costs, both political and economic, were larger than Clinton was willing to bear. Clinton wanted to balance the budget while raising public investment and keeping tax hikes to a minimum. This is impossible without cutting government spending on current consumption, which in practice means cutting entitlement spending. There were no structural or geopolitical constraints keeping Clinton from making such a shift in priorities, but there were trade-offs, and the President was unwilling to make them.

This is not an especially encouraging precedent for Blair, especially given that the British economy has bigger problems than the United States's and that the constraints on a Labour government's maneuverability are more substantial. Exacerbating Blair's difficulties still further is the incoherence at the heart of Labour's economics: "stakeholding," which is the closest thing Labour has to an encompassing idea.

Tied to the Stake

Blair and other New Labourites have used at least five different understandings of "stakeholder economics," often without recognizing that they are either mutually exclusive or of varying viability as implementable propositions. In fact, almost all the definitions of stakeholding end up being either implementable but ineffectual, or effectual but unimplementable.

The first, and least New Labourish, understanding of stakeholding is that it is just another way of describing full employment. In Blair's terms, "the most meaningful stake anyone can have in society is the ability to earn a living and support a family." The fundamental element of modern civic membership is employment: Those outside the labor market lack a stake in society, and consequently turn against it, either through welfare dependency, crime, or simple lack of social involvement. By creating a predictable and steady expansion of demand, government can induce businesses to invest for the long term, and thus to expand employment. The problem is that it is very difficult for a medium-size state to implement this steady expansion of demand in a global economy. Any attempt to reflate the British economy would cause a run on the pound, which would be devastating for an economy as integrated into the world economy as Britain. Keynesianism in one country is impossible. And since Blair has described his support for monetary policy as being as conservative as the Tories', this version of stakeholding seems both infeasible and out of fashion.

The second, and infinitely more New Labourish, definition of stakeholding centers around human capital. Like the pre-election New Democrats, the human capitalists accept the structure of global capital markets, but try to maximize the leverage that its citizens have against them. As Peter Mandelson and Roger Liddle argue in their book, *The Blair Revolution: Can New Labour Deliver?*, "whereas capital is mobile, labour is much less so. Decisions about where new investments are made are primarily determined by the skills and attributes of the local population." Giving citizens a stake in the economy means shifting emphasis from redistributing income to redistributing skills, thereby giving people the means to compete in an international economy. But while this version of stakeholding increases the value of a country's human assets and attracts foreign capital, it is expensive to

implement because it requires either reductions in redistribution of wealth in favor of redistribution of skills or increases in taxation. Given the generally uninspiring record of programs to improve education or training on a widespread basis, expecting substantial returns from human capital investment is probably excessively optimistic. Still, this construction of stakeholding, which is clearly close to Blair's core politics, is at least coherent and theoretically plausible.

The third, and even more New Labourish, definition of stakeholding concentrates on the nature of the business enterprise, and by extension on society as a whole. As Mandelson and Liddle assert, "New Labour stands on the side of the egalitarian style of management about which Far Eastern inward investors have so much to teach Britain." This construction of stakeholding argues that while the economy as a whole may best be understood as competitive, no successful business enterprise is. Successful businesses have cooperative—not competitive—relationships with their employees, suppliers, and local communities, since these are the essential resources that help them add value. When trust exists with these "stakeholders," transaction costs (such as the cost of constant supervision of employees) go down, information is widely and easily shared, and change can occur in a more rapid and frictionless manner. Companies that treat their stakeholders well will, in the end, be more profitable and create greater value for their shareholders. Stakeholder economics, then, is about creating the social preconditions for the wide diffusion of this sort of corporate model. The role of government here is to increase social cohesion by encouraging, but not requiring, companies to adopt stakeholding principles. Blair, who seems currently to favor this model, has said:

> We cannot by legislation guarantee that a company will behave in a way conducive to trust and long-term commitment. But it is surely time to assess how to shift the emphasis in corporate ethos from the company being a mere vehicle for the capital market—to be traded, bought, and sold as a commodity—towards a vision of the company as a community or partnership in which each employee has a stake, and where a company's responsibilities are more clearly delineated.

Labour is in a bind: Britain lacks the size and strength to implement alternative economic policies.

The attractions of this model to New Labour is that it gets the party behind a trend that everyone seems to like, and that has few obvious costs. The downside is that encouragement without regulation is unlikely to influence corporate policy in a decisive manner, and it is not altogether clear that stakeholding in this interpretation is anything more than a way to get more effort out of employees by making them feel part of the business.

A fourth model of stakeholding, in some ways related to the third, suggests that not only is the stakeholding enterprise socially and economically superior, but that it is the only humanely justifiable form of capitalism. A true stake in capitalism can only come when employees and other stakeholders are given a legal standing in the corporation. Currently, Anglo-American corporate management is legally required to maximize shareholder value: To do otherwise is to risk either lawsuits or hostile takeovers. Pension and other financial professionals have a fiduciary duty to maximize their trustee's risk-adjusted returns, and to do so they typically attempt to keep their holdings as liquid as possible. Shareholder capitalism always leaves open the possibility of dissolving a firm's component parts: Shareholders can always sell their shares, management can always fire its employees, cut their pay, or reduce their benefits, and the company can always move to another location. The fragmented corporation, advocates of this version of stakeholding say, in which an employee's stake is always tenuous, is both economically irrational and socially destructive.

This construction has the advantage of having clear policy consequences, and the disadvantage of, well, having clear policy consequences. If Britain threatens to change, through legislation, the nature of the corporation, won't capital flee to places where it is treated with greater solicitude? While the United States, with its substantial weight in the world economic system, might be able to implement the capital controls this kind of change in

corporate structure would require, Britain cannot.

The advocates of corporatist stakeholding recognize this: Will Hutton, for example, argues that "the world's financial markets need to be brought to heel. . . . Mobility of capital is not an unqualified public good. . . ." But doing anything about this requires policy at least at the European level, if not at a global level. It can't be done in Britain alone. Besides which, Blair seems to believe that if the United States can have a strong economy without giving employees a legal stake in corporations, England can too: "the Anglo-Saxon [financial] structure has not stopped the US economy being dynamic and strong." So corporatism is out, management consultancy is in.

> "Stakeholding" is the closest thing Labour has to an encompassing idea . . .

This leaves one other construction of stakeholding, which is to give employees a stake in their firms directly, by mandating certain minimal standards of corporate responsibility, such as the minimum wage, working hours, provision of pensions, training, and child care, and by making it more difficult for employees to lose their job without cause. Instead of trying to re-jigger the political structure of the firm to lead companies to voluntarily provide these things, government would mandate their provision directly. Labour has already signed onto some of these mandates, such as the minimum wage, and has indirectly agreed to almost all of them as a result of its support for joining the European Social Chapter. The problem is, right now Britain's primary comparative advantage in Europe is the cheapness and flexibility of its labor market. Directly imposing additional social costs on the firm means that business is more likely to locate in countries without such costs, such as the United States, or in countries like Germany that have the costs but with compensating advantages such as a highly educated workforce and a safe and stable society.

So Labour is in a bind. While it has a respectable intellectual case to be made for various forms of dramatic economic policy, it is probably unlikely to get away with any of them, because of its place in the international economy. Policies that attempt to change corporate behavior directly, or that attempt to reflate the economy unilaterally, are not possible for a country of Britain's size and position.

While this does not mean that nothing can be done to improve Britain's economic performance, it does sharply narrow the possible scope of such interventions. Labour's best hope of changing Britain's economic performance is likely to come from transforming the policies it already has, and from restructuring its state, rather than from attempting to directly remake the structure or behavior of the corporation. Ultimately, social policy and political reform will be the most important manifestations of stakeholding, and possibly the most effectual form of economic policy.

Reciprocity as Social Policy

Some of this stakeholding premise in social policy was present in Bill Clinton's campaign for president in 1992. Clinton's greatest promise as a campaigner was a new era of social policy. The old division, between a left that wanted opportunity without obligation, and a right that wanted obligation without opportunity, was over. Social disorder was recognized as having roots both economic and civic, and neither cause could be collapsed into the other. For this reason, constructing a ladder of opportunity for the poor, and vigorously enforcing the fundamental civilities, were of a piece. Social obligations—to work, to obey the law, and to support one's family—generated a responsibility on the part of the larger society to make conforming somewhat easier, and to support those willing to obey its standards.

In practice, of course, things didn't quite work out this way. Other than an expansion of the earned income tax credit and an increase in the minimum wage, Clinton's legacy is one of reducing the carrots of opportunity and supporting the sticks that, while rhetorically attractive (such as limits on payments for women who have additional children while on the welfare rolls), are least likely to be successful or important. His support for returning the responsibility of Aid to Families with Dependent Children to the states not only reduces the money available for the poor during economic downturns, but also, more insidiously, makes it difficult to firmly put the poverty problem back on

the national agenda. A "policy trajectory" has been created, one that roots interventions primarily in the states, where the resources—and often the will—are lacking for dramatic new extensions of equal opportunity.

Blair promises the same deal Clinton originally did: enforcing civilities against those who would violate the norms of decent society, emphasizing obligations and their connection to rights, and proposing substantial redistribution to the poor who conform to minimal obligations. Blair states the principle clearly: "If I take without giving, enjoy rights without accepting obligations, then I betray the trust of those who do give, those who do exercise their responsibilities in a responsible way." New Labour has accepted that enforcing the rules of civil life is critical, and that tolerance for incivility weakens the social bonds that support the welfare state.

Enforcement of civic obligations is at the center of New Labour plans for Britain for three reasons. First, it is necessary politically, if Labour is to demonstrate its sense of common purpose with "Middle England." Second, it is necessary economically, given that, in Blair's words, "The existence of what is sometimes called an underclass—a group excluded from society's mainstream—is an economic as well as a social evil." Moreover, the crime and social disorder created by lax enforcement of social norms drag down the quality of life and increase security costs, both deterrents to global capital.

. . . but what does "stakeholding" really mean?

Finally, norm enforcement is central to one of Blair's favorite themes, "community." As a basic definition, a community is a social form characterized by mutual obligations. But beyond this, what Blair means by "community" continues to be quite unclear. Like "stakeholding," "community" is something of a placeholder where an idea belongs. Blair is quite fond of language that attempts to integrate concepts that previously were considered contradictory:

> Binding all this together is the notion of rebuilding a modern view of community, where interdependence and independence are both recognized, where the existence of a strong and cohesive society is considered essential to the fulfillment of individual aspiration and progress.

While attractive as a theoretical proposition, this understanding of community is incredibly thin. The Welsh miners, for example, bound by traditions passed along for generations and situated in a fixed place, were a community. Blair is toying with this common understanding, using it to justify social bonds so thin as to be virtually transparent. Gordon Brown, Blair's Shadow Chancellor of the Exchequer, clearly stretches the New Labour idea of community far beyond the commonsense definition of the word:

> But community was never, at root, a reference only to a geographical entity or a description only of class or, most of all, synonymous with the state, but something more fundamental: a recognition of our interdependence, that we emerge from society and are part of it.

Fair enough, but this sleight of hand means that a definition of community with a fixed meaning is being exchanged for little more than a metaphysical abstraction, the social embeddedness of human beings. This is unfortunate, because the loss of actual, physical communities should be a central object of Labour's attention. Self-governance—the capacity of citizens to shape and regulate themselves through political instruments close to them—is the center of any understanding of community that has connections to politics. And it is the centralization of almost all social policy under Thatcher that has done the most to erode the capacity of Britons to govern themselves. Blair should forthrightly claim that the central right he seeks to reclaim for the British people is the right to self-governance. Without such a claim, all Blair's talk of community adds up to very little.

The Agony of New Liberalism

The core of New Democrat and New Labour thinking is a shared cognitive perspective that sees the essence of moral reasoning to be the integration of equally necessary social goods, rather than the process of choosing between them. The attractiveness of this model is, first of all, its decency and

its accord with reason, but also its connection to the way ordinary citizens of both Britain and the United States think. The public, if not most of the elites that rule them, want to see the values of order, equality, and liberty integrated, and they recoil from ideologues who ask them to support one to the exclusion of the others.

Establishing this cognitive model in an environment in which narrow ideological thinking still reigns is a difficult project, however. Politically, the challenge is to demonstrate one's difference from the old way of thinking, since parties develop reputations over decades that take strong steps to repair. To do this, the first order of business is separating oneself from the old elites, and this usually, perhaps necessarily, takes the form of attacking the old elite at its most sacred spot. For Blair, this came with the removal of Clause IV of the party's constitution (which for many years was the essence of the Labour Party's commitment to public ownership and statist socialism), his unwillingness to support reconnecting pensions with earnings (Thatcher had dramatically reduced pension obligations by linking them only to prices—not, as previously, to wages or prices, whichever was higher), and his weakening of the institutional role of the unions in the Labour Party. For Clinton, it was support for welfare reform, the attack on Sister Souljah (and divisive identity politics), and an embrace of free trade, balanced budgets, and tight money.

The problem is, as right as these steps are, they are truly only the precondition for party renewal, not the renewal itself. Smashing the power of the radical left (in the Labour Party the militant unions, in the Democratic Party the identity politics crowd) is necessary because it allows for large-scale thinking that does not merely parrot or water down radical left thought. Distancing oneself from the left feels so important, so decisive, so brave. But that's the easy part. The difficult part is planting the garden once the weeds have been pulled up by the roots.

Clinton has, for a variety of reasons, basically ceased the process of real structural reform, coming out, it seems, every day with a new symbolic proposal to reimpose social order, like school uniforms. He has, in fact, well and truly established his legitimacy as a "New Democrat." But he seems unwilling, or unable, to take advantage of the room for major action that this impression creates. Unwilling to use the language of reciprocity to substantially remake the welfare state and the structures of American capitalism, Clinton looks like a decent, pre-Thatcher-Reagan conservative. He has presided over freer trade, sound money, and reduced deficits, and has moved the state of American society toward greater civility and a willingness to enforce social norms. But these are the accomplishments of a responsible conservative, not a true believer in reciprocal liberalism and cultural integration, because, left to themselves, they leave out the element of equality.

There are lessons here for Tony Blair. It is not enough for him simply to stand behind the forces of civility and order, both in word and deed. He must use his emphasis on civility and order to go forward, to change the nature of social debate. He should insist that every call for more obligations on the poor be accompanied by an explanation of how we can reward those who play by the rules, even when their environments and local incentives encourage vice. He should insist that a sane anti-inflationary economic policy be based not just on sound monetary policy but on increasing public investment. He will need to explain convincingly how a reformed state, which grants additional power to local government and which does not sacrifice quality for equity, can be trusted with more of the taxpayers' hard-earned money. Distancing oneself from the Old Left should only be a way station on the road to creating a new, sane, reconstructed left. Unless this is strongly and repeatedly emphasized, the danger is that New Labour will decompose into flaccid centrism, and ideological hegemony will remain in the hands of the Tories, even if they do not hold the reins of the state.

All the political incentives from the left will encourage Blair to expand rights, while those from the right will push him to enforce obligations. Blair should stand athwart and above both, pushing policies that do both simultaneously. In doing so, he will not be splitting the difference, but creating a new dominant ideology to which rival elites will have to adjust themselves. If Blair does this, he has the chance of becoming one of the greatest, and most consequential, Labour prime ministers of the twentieth century. If he fails, and falls into the inherent dangers of New Liberalism that devoured Clinton, he will simply be the next in a long line of failed Labour Party leaders, remembered in the same breath as James Callaghan and Neil Kinnock. If he succeeds, he will be a model for those of us on the Western side of the Atlantic to emulate.❑

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FT397

UNRAVELING AN ECONOMIC ENIGMA

OVERWORKED *AND* UNDEREMPLOYED

BY BARRY BLUESTONE AND STEPHEN ROSE

At least since the 1980s people have said that they work "too hard"—that they are spending too much time on the job, with too little left for family, chores, or leisure. In 1991 this frustration became conventional wisdom thanks to Juliet Schor's best-seller, *The Overworked American*, which demonstrated that Americans worked an average of 163 more hours in 1990 than they had in 1970—or the equivalent of nearly an extra month of full-time work per year. According to Schor, men were working two and a half more weeks per year; women an average of seven and a half more weeks. These were startling statistics, reversing more than a century of gradual reduction in working time as society became richer and more productive. If Americans were working this much longer, then they were not only overworked by traditional U.S. standards, they were setting new world records.

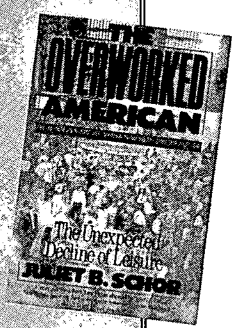
But critics challenged Schor's data and pointed to a logical flaw in her argument. Today, more people work part-time because they can't find full-time work; more are temping or working as short-term independent contractors. Job insecurity is rampant, and other statistics show that the number of weekly hours on the typical job has actually shrunk steadily since World War II. It seemed implausible that Americans were simultaneously "overworked" and "underemployed," thus prompting the question: Were Schor and all the harried Americans who cheered her book's appearance wrong?

Not necessarily. It's possible, for instance, that we are mixing apples and oranges. The number of contingent jobs and average weekly hours refers to "jobs," not people.

If individuals are moonlighting more—working multiple jobs in any given week—then the average workweek reported by employers can still shrink while the average workweek reported by workers can actually expand. It is also possible that one sector of the workforce is "overworked" while another portion is "underemployed."

But the real story turns out to be even more intriguing and complicated. Based on a new analysis of the data, we have found that Americans are indeed working longer than they once did, if not quite as much as Schor would have us believe. But, more importantly, we have also found that many Americans are both overworked and underemployed. Because of growing job instability, workers face a "feast and famine" cycle: They work as much as they can when work is available to compensate for short workweeks, temporary layoffs, or permanent job loss that may follow. What's more, while American families as a whole are putting in more time, that work isn't producing significant increases in living standards. For the typical two-breadwinner household, having both parents work longer hours may not mean an extra trip to Disney World or nicer clothes for school; more likely, it means keeping up car payments or just covering the costs of food and housing.

Individuals may not be more overworked than before, but families certainly are.



MULTITASKED

At one extreme are workers like Bill Cecil, a 50-year-old United Auto Worker member recently portrayed in the *Wall Street Journal*. Averaging four hours a day in overtime and volunteering to work seven days a week for most of the year, Cecil clocks an average of 84 hours a week at a Chrysler plant in Trenton, Michigan, where he works as a skilled millwright. In the past two years, Cecil's extraordinary work effort has paid off. He has averaged more than $110,000 a year in gross pay. Sacrificing, by his own admission, "freedom and time with family," he works as much overtime as the company will let him in order to help send his four kids to college, fill his lunch pail with lobster salad rather than luncheon meat, and underwrite his golf habit, which he indulges whenever a vacation or a layoff permits. While Bill Cecil's case is exceptional, 70 percent of the skilled-trades workers at his engine production facility are working at least some extra hours most weeks.

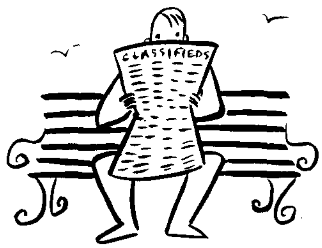
Increasing overtime is becoming more commonplace throughout the manufacturing industry. For the first four out of five post-World War II business cycles, average weekly hours of work for production and nonsupervisory workers in manufacturing remained roughly constant, varying only slightly between 40.1 and 40.4 hours. However, during the current business cycle, from 1989 to 1996, the average workweek has jumped to 41 hours—with average overtime reaching a post-World War II peak of 4.7 hours per week in 1994.

A *Fortune* magazine poll of Fortune 500 CEOs in 1990 found a similar tendency toward more work among executives. Sixty-two percent of CEOs reported their executives were working longer hours than they had ten years before. They reported that nearly nine out of ten of their high-level executives normally put in more than 50 hours a week while three-fifths of middle managers did the same.

Moonlighting is also on the rise. In 1979, 4.9 percent of U.S. workers reported working more than one job during the same workweek. By 1995, the percentage was up to 6.4 percent. Virtually all of this increase has occurred among women, who now represent nearly half of all multiple job holders. According to a recent survey sponsored by the *Washington Post*, the Kaiser Family Foundation, and Harvard University, two out of five families report they have sent an additional family member into the paid labor force or had an existing working member take on an additional job—simply because the family needed extra money.

Working more makes sense from both the employers' and the employees' perspectives. Manufacturing firms like Chrysler do not hesitate to schedule large amounts of overtime when product demand outstrips supply, even if it means paying time and a half, double time, or triple time during

holidays, because it is still less expensive than covering the high fixed costs of recruitment, training, and possibly the underwriting of future severance pay associated with hiring new workers. For salaried white-collar employees who are exempt from hours regulations, the arithmetic is even simpler—the extra hours often cost the company nothing at all.



Fortune 500 CEOs and their executives say they need to put in overtime just to keep up with global competition and compensate for internal restructuring or middle-level management downsizing. But why would blue-collar workers so willingly give up leisure or family time? Schor has identified one factor, which she calls "capitalism's squirrel cage"—an "insidious cycle of work and spend" where people work long hours to support a material lifestyle always a bit beyond their reach. But that suggests the increased work hours are buying a rising standard of affluence, which is somewhat misleading. Indeed, a more compelling reason for extra work is the slowdown in wage growth during the past two decades. Between 1947 and 1973, real hourly wages for production and nonsupervisory employees rose by 79 percent. Since 1973 hourly wages have actually declined by more than 13 percent. For many workers, working longer hours is the only way to compensate for lower hourly wages.

Of course when pollsters ask people, "Would you like to work less?", most say "yes." But when pollsters include a caveat—that fewer working hours would mean less take-home pay—the answer changes sharply. Over the last 20 years, surveys with this appropriately worded question have been answered with great consistency: Approximately 60 percent say they prefer their current work schedule and pay. Of those who express a desire to change their working time, more people, by about three to one, express the desire to work longer rather than shorter hours.

Union negotiators in the U.S. know this, which is why they so rarely make reducing work time a priority in collective bargaining. In fact, many workers complain bitterly whenever management prerogative or union contract restrict overtime hours. In a "real experiment" on this issue, New York's state government in 1984 began allowing their workers to take voluntary reductions in work schedules without affecting their career statuses. The plan was flexible and permitted workers to move on and off "V-time." Since its inception, however, the program has never enrolled more than 2 percent of the workforce.

This expressed desire for more hours is consistent with the trend toward more contingent work. At the same time that many workers are looking to expand their number of working hours, the economy has shifted steadily from manufacturing to sectors like retail trade and services, where part-time work is more common. One estimate for 1995 places the total number of contingent workers (part-time, temporary, and contract workers) at close to 35 million—28 percent of the civilian labor force. Of these, 18 percent of the workforce or 23 million workers were part-time, working 35 hours or less per week. Smaller in absolute numbers, but growing much faster, is the temporary workforce, which between 1982 and 1995 more than tripled to 1.4 million workers. Manpower, Inc. now boasts it is the largest employer in America, submitting more W-2 forms to the Internal Revenue Service each year than any other firm. The number of contract and self-employed workers is also growing rapidly, indeed explosively. The U.S. General Accounting Office has reported that the number of individuals who are self-employed or working under personal contract was growing at more than 13 percent a year in the late 1980s. By 1988, 9.5 million Americans worked for themselves either full-time or as a supplement to regular or part-time employment.

> In what is supposed to be an "overworked" nation, the typical job is now part-time.

A large proportion of the contingent workforce has chosen voluntarily to work part-time, as temporaries, or as independent contractors. Still, involun-

tary part-time employment is growing much faster than the voluntary variety. In 1973, 19 percent of total part-time employment was accounted for by individuals who wanted full-time jobs but could not find them. By 1993, this proportion was up to 29 percent. The incidence of involuntary part-time work is especially high among men. In 1985, one in four part-time women reported their part-time status was involuntary; nearly half of all part-time men did so.

For the labor force as a whole, these numbers begin to add up. Since 1994, the Bureau of Labor Statistics (BLS) has been compiling a new set of alternative measures of unemployment and underemployment—what the Labor Department calls "labor resource underutilization." In addition to the official unemployment rate, the BLS adds three types of "underutilized" workers: (1) those who have stopped looking for work only because they have become discouraged by their apparent job prospects; (2) those who are "marginally attached" to the civilian labor force; and (3) those who are working part-time only because they cannot find full-time jobs. The "marginally attached" include those who want and are available for a job and have recently searched for work, but have left the official labor force because of such constraints as child care or transportation problems.

The official unemployment rate in 1995 was 5.6 percent with an average of 7.4 million failing to find work each month. Adding discouraged workers to the total brings the "underemployment" rate up to 5.9 percent. Adding the "marginally attached" ups the rate to 6.8 percent. Finally, adding in the involuntarily part-time brings the rate to 10.1 percent. In what was a good year for the economy and employment growth, 1995, the total number of unemployed and underemployed workers reached nearly 13.5 million—one in ten of the total labor force.

THE SHRINKING WORKWEEK

Since World War II, the average workweek, as reported by employers, has declined.

Years	Average Week* In Hours
1947-1958	39.5
1959-1972	38.2
1973-1978	36.2
1979-1988	35.0
1989-1996	34.5

*Total private-sector employment

Source: Council of Economic Advisers, *Economic Report of the President, 1987,* Table B-41, and Council of Economic Advisers, *Economic Report of the President, 1996,* Table B-43.

All of these trends contribute to the decline in the average workweek reported by employers since at least World War II. As the chart on this page indicates (see "The Shrinking Workweek"), from 1947 to 1958 the average workweek was nearly 40 hours, the "full-time" standard for much of this century. In the most recent business cycle, the average workweek fell below 35 hours, the cutoff normally used to define a "part-time" job. Ironically, in what is supposed to be an "overworked" nation, the typical job is now part-time! Again, we should ask, "overworked," "underemployed," or perhaps both?

WHOSE NUMBERS SHOULD WE BELIEVE?

Whether we believe that Americans are overworked or underemployed depends, in part, on whether we believe the work time data. Many economists question Juliet Schor's findings and it's not hard to understand why: The idea that Americans are, on average, spending the equivalent of an extra month a year in paid work seems almost unbelievable.

But is it? According to one recent study, Schor's basic finding holds up, but her estimates of overwork appear somewhat exaggerated. Using data from the Current Population Survey, Larry Mishel and Jared Bernstein of the Economic Policy Institute have re-estimated annual work hours for various years. Their research confirms the general proposition of increased annual working hours, but for a comparable period (1973 to 1992) their estimate is only three-fifths as large as Schor's. They calculate that in 1973, the average workweek (for both employed and self-employed workers toiling in the public as well as the private sector) was 38.4 hours. The average work year was 43.2 weeks, yielding an annual estimate of 1,659 hours

of work. By 1992, the average workweek had climbed by 0.6 hours while the average work year had increased to 45.2 weeks. Hence, annual average hours had risen to 1,759, an increase of 100 hours or 6 percent—but 63 hours less than Schor's estimate.

Yet even these more reasonable figures raise questions. Note that the steady decline in the average workweek reported by employers as shown in the "Shrinking Workweek" chart suggests that for average hours per job to decline while average hours per worker increases, there would have to be enormous increases in moonlighting. This seems implausible, because even with the recent increase in moonlighting, only 8 million workers out of a workforce of more than 125 million report holding more than one job.

> Wage rates matter, but what is really killing black men in the labor market is their inability to find full-time, full-year jobs as readily as their white counterparts.

The problem may be with the very survey data upon which Schor, Mishel, and Bernstein all rely. The estimates of hours worked come from the March Current Population Survey (CPS) for each year, which the U.S. Census Bureau and the Department of Labor compile annually. Among several dozen questions about labor market activity, the CPS asks respondents to report "hours worked last week" and "usual weekly hours of work last year." Individuals have only a few seconds to answer these questions. In making what may be a wild guess, particularly for those people whose hours vary substantially from week to week, the individuals frequently guess high. And the more harried and rushed they feel, the higher they guess. Could you account for the actual number of hours you spent working last week?

A more accurate measure of hours worked comes from special studies that target the work time issue by asking respondents to keep a 24-hour time diary of everything they do over a one- to two-day period. Such time diary surveys were first carried out by the University of Michigan Survey Research Center in 1965 and 1975, and then again by the University of Maryland in 1985. The accuracy of work time estimates derived from this survey approach is presumably superior to CPS measures for two reasons. First, the exercise's sole purpose is studying the use of time; second, respondents do not have to plum their memories for what they did a week ago or try to calculate instantly how many weeks they worked all of last year.

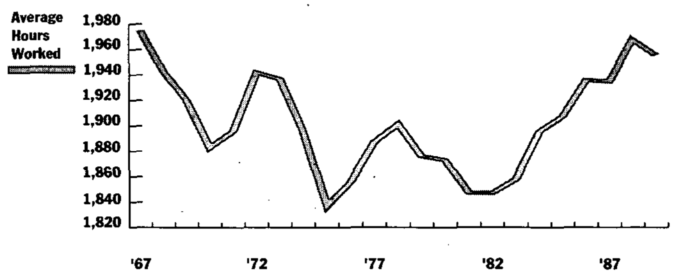
Sure enough, a comparison of CPS-estimated hours of work and diary entries suggests that people overestimate how much they work—and that the overestimates get bigger the more hours they put in. According to John Robinson of the University of Maryland and Ann Bostrom of Georgia Tech University, who studied the two sets of surveys, among those estimating 20 to 44 weekly hours, the CPS-type estimates were only slightly higher than the diary entries. But among workers claiming to "usually" work more than 55 hours per week, the gap was 10 hours or more per week. Robinson and Bostrom concluded that "the diary data suggest that only rare individuals put in more than a 55- to 60-hour workweek, with those estimating 60 or more hours on the job averaging closer to 53-hour weeks." Moreover, using the diary studies for 1965, 1975, and 1985, Robinson and Bostrom found a systematic increase in the size of the estimate gap over time. The gap rose from just one hour in 1965 to four hours in 1975 to six hours in 1985, which is more than enough to account for the alleged "overwork" that Schor and Mishel and Bernstein claim to have found.

When Robinson and Bostrom analyzed diaries for 1965, 1975, and 1985 more carefully, they found only small changes in hours worked among those who normally work 20 hours or more per week. Between 1965 and 1985, men's average hours declined by 0.7 hours per week from 47.1 to 46.4 hours, while working women's hours increased by the same amount (0.7) from 39.9 to 40.6 hours. If these numbers are believed, then the source of increased hours worked that Schor observed must be new entrants to the labor force—again, many of them women—and part-timers who have increased their part-time hours. Of course, whether this should be counted as "overwork" or

not is a matter of deeply divided opinion.

INDIVIDUALS WORKING HARDER, AGAIN

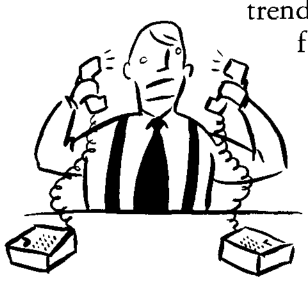
From 1967 through the late 1970s, individuals were working less. Since 1982, however, they've been working more and more.



Source: Author's analysis of PSID survey data.

SCHORING UP THE FINDINGS

What can we make of such sharply different findings? To answer this question, we decided to pursue still another approach, using yet another type of survey instrument. So far, all of the research on working hours has relied on data snapshots at different points in time using either the CPS or diary information. An alternative approach is to use longitudinal data—in other words, information about the same people gathered year after year—to track working hours. Using this information, we can follow the work time pattern of, say, a particular age group over several years—as one could with CPS data—or follow the same workers over time. Here we do both in order to provide completely new estimates of work time. We use the Panel Study of Income Dynamics (PSID), a data set of families that the University of Michigan Survey Research Center has been following since 1968. The long-running nature of the PSID permits a comparison of working time during two ten-year periods—the 1970s (1969-1979) and the 1980s (1979-1989). (These periods had similar growth rates in real output per person and in job creation, and each encompassed two complete business cycles. Hence, the comparison is a reasonable one to make.) We also combine the two decades of data to follow a particular age group (in this case, prime age workers with job experience) in order to derive typical trends in annual work hours for men and women, whites and blacks, and for segments of the population with differing amounts of schooling.



While the PSID does not provide the full detail nor perhaps the precision of hours estimates culled from the diary method, its data on hours worked is superior to that of the CPS. First, PSID asks respondents to detail their work experience by recalling how many days they were on vacation, on sick leave, on strike, or on leave due to other family members' illness. It then asks respondents to answer questions about regular hours of work per week and weeks worked on his or her main job. Then it poses the same questions concerning up to three other jobs respondents held during the year. Finally, all of this information is combined to yield an estimate of annual hours. Obviously, this approach suffers from recall problems, much as the CPS does, but the detail on each job presumably permits a better estimate.

The first part of our analysis is based on computing the average hours of work in each year from 1967 through 1989 for prime age workers (ages 25-54). In this case, we use the PSID as a series of cross sections where the sample individuals in each year vary as younger individuals enter the prime age group and aging workers leave it. We limit our sample in each year to those who reported hours of work, eliminating those from consideration who were out of the labor force in a given year. We generated separate estimates for men and women, and broke the findings down by race and by education. The graph on page

63 ("Individuals Working Harder, Again") provides the results for all prime age workers.

There is clear evidence of variation related to the business cycle. Average hours dip sharply in 1970-71, in 1975, and then again during the steep 1981-82 recession. But overwhelming the business cycle is a U-shaped trend in hours of work. Average hours appear to decline through the early 1980s and then begin a sharp recovery throughout the decade. If we compare 1979 and 1989, the last two business cycle peaks, there does indeed appear to be an increase of 79 hours per year for the average worker. But over a longer period, this increase marks not so much a startling increase as a return to levels that prevailed in the late 1960s.

Families are trapped in an *Alice in Wonderland* world, running faster and faster just to stay in the same place.

To obtain a more accurate estimate of the trend in hours, we ran a statistical exercise to control for the business cycle. Having done this, we find a small, but statistically significant, overall upward trend in annual hours for prime age workers as a group. The trend amounts to only 3.3 hours per year. Hence, over a 20-year period, we find a 66-hour increase in annual work—the equivalent of 1.5 weeks of full-time work per year. This is well below Schor's estimate of 163 hours and a third below that what Mishel and Bernstein found. But, importantly, the trend is decidedly upward, in contrast to the essentially flat line Robinson and Bostrom found for the 1965-1985 period using the diary method.

Among men, working hours declined slightly, after we control for the business cycle. But for women, hours increased significantly. Indeed, our estimate of 18.8 additional hours per year translates into a 20-year total somewhat greater than even Schor's estimate. We also find significant differences in the hours trajectories by race. Reflecting trends well documented elsewhere, our estimate of a decline of 7.7 hours per year for black men translates into an average work year in the late 1980s more than 150 hours shorter than in the late 1960s. In 1989, we estimate that black men averaged only 1,950 hours per year compared with just under 2,300 hours for white men. Higher unemployment rates are responsible for part of this difference. Shorter workweeks explain the remainder. This suggests that the continuing earnings gap between white and black men is only partly accounted for by differences in wage rates—the traditional measure of labor market "success." A large amount of the gap is also due to differences in hours worked. Wage rates matter, but what is really killing black men in the labor market is their inability to find full-time, full-year jobs as readily as their white counterparts.

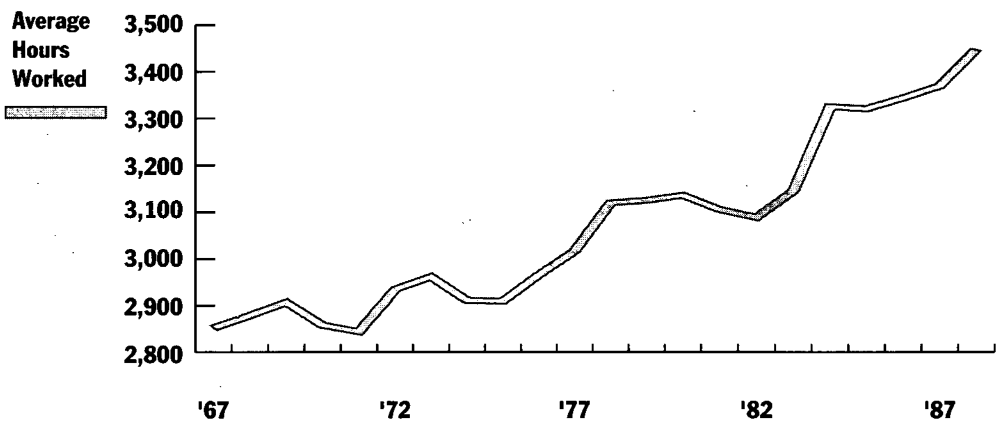
The racial gap in hours worked among women shows an intriguing time pattern. On an annual basis, there appears to have been virtually no gap in work hours in 1967. The gap then widened significantly, so that by the mid-1970s black women were working almost 200 hours more per year than white women. White women caught up again, and by 1989 white and black women were working virtually the same amount. To close the gap, white women's cycle-adjusted hours had to rise substantially faster than that of black women. This is precisely what happened. Over 20 years, white women's annual hours increased by the equivalent of 10.3 weeks of full-time work, nearly double the 5.4 weeks for black women.

As a general rule, then, there has been a slight reduction in men's work hours and a large increase in women's hours. Given these trends, we can ask what has happened to family work effort as America has undergone the transition from the prototypical "Ozzie and Harriet" division of labor of the 1950s to the dual-career family of the 1980s and 1990s.

To investigate the trend in family work effort, we have estimated the combined hours of work for "prime age" families in which both husband and wife are working. The long-term trend is shown in

More Total Hours . . .

Whatever the trends for individual workers, the change for families is clear: The average hours worked by husbands and wives have climbed steadily over the last two decades.



Source: Author's analysis of PSID survey data.

the graph above ("More Total Hours . . ."). There is a clear and nearly unbroken trend toward much greater work effort, interrupted only modestly by the recessions of 1971, 1974-75, and 1980-1982. By 1988, prime age working couples were putting in an average of 3,450 hours per year in combined employment, up from 2,850 two decades before. (Data for family hours and earnings in our version of the PSID were incomplete for 1989, so we use 1988 as the end point for this analysis.)

Adjusting for business cycle effects, we calculate that for all husband-wife working couples, family work effort increased by more than 32 hours per year for each year of the 1970s and 1980s. Hence, in the span of just two decades, working husband-wife couples increased their annual market work input by a cycle-adjusted 684 hours or 4 months of full-time work. The typical dual-earner couple at the end of the 1980s was spending an additional day and half on the job every week. If individuals are not more overworked than before, families certainly are.

Increases in family work effort differ significantly depending on race and education. The increase in working hours among white working couples was 60 percent larger than the increase for black couples—a reflection of both the sharp decline in black men's hours and the large increase in white female work effort. More-educated working couples also increased their work effort more than those with less schooling. Those in which the husbands had at least undergraduate college degrees increased their combined work effort by nearly 730 hours compared to an increase of only 490 hours for couples headed by high school dropouts. The "overeducated" are the ones most "overworked."

Has this enormous increase in work effort paid off in terms of increased family earnings? The graph on the right-hand page (". . . and for What?") shows our comparison of hours worked and earnings growth.

For prime age working couples as a group, combined real earnings rose by 18.5 percent between 1973 and 1988. (This represents an increase from $43,851 to $51,955 in 1989 dollars.) Most of this modest increase, however, did not come from improved wages, but from increased work effort. The 18.5 percent increase in real earnings was purchased with a 16.3 percent increase in hours

worked. Over the entire 15-year period, the combined average husband-wife hourly wage increased by only 1.8 percent—the equivalent of a real hourly wage increase of less than 30 cents over the entire period, or 2 cents each year!

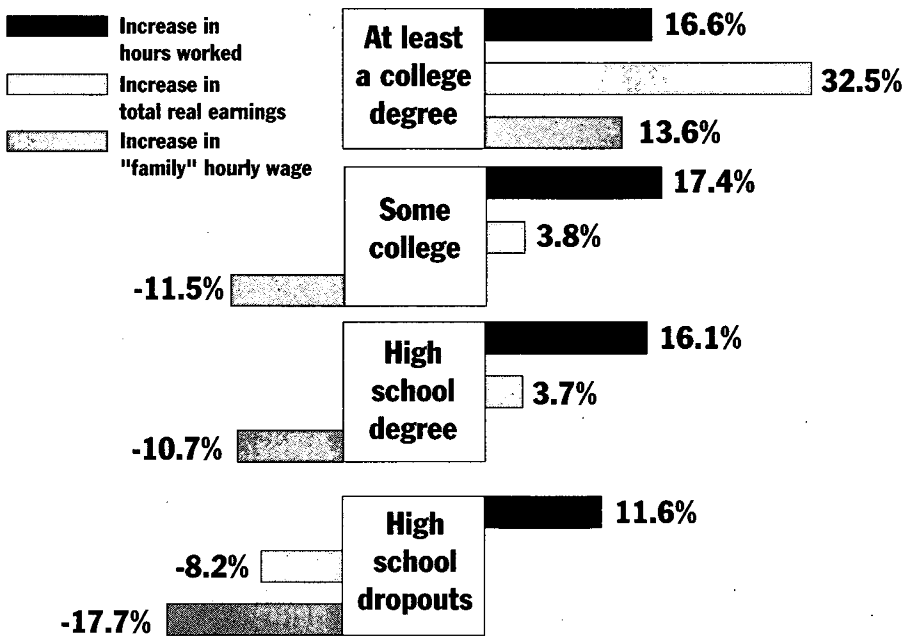
As such, Schor's "squirrel cage" does not appear to be far off the mark. American mythology holds that long hours will pay off in a steadily increasing standard of living; in other words, sacrificing time with family can pay for a dishwasher or microwave and, down the road, a more expensive college for one's children. Yet from a purely material perspective, all the extra hours from the "average" working family have yielded only a very modest improvement in the amount of goods and services they can buy.

But even this story is too sanguine for most families. When we break down the hours and earnings data by education group the tale gets even more depressing. Most Americans are not working harder so they can afford a fancier minivan; they're just trying to make payments on their old car or cover the rent. When you remove from the equation families headed by a worker with at least a college degree, it turns out that the enormous increase in work effort over the past 20 years has allowed families to maintain their old standard of living—but almost nothing more. For families headed by high school dropouts, the situation is the most dismal. Between 1973 and 1988, such families increased their annual work effort by nearly 12 percent yet ended up with 8 percent less annual income. For families headed by high school graduates or some college, work effort was up by 16 to 17.4 percent, producing less than a 4 percent increase in total earnings. These families are trapped in an *Alice in Wonderland* world, running faster and faster just to stay in the same place. For all of these families, the "family" hourly wage has fallen precipitously, by as much as 17 percent in the case of the high school dropout.

Of course, more work still pays off for one group: families headed by a college graduate. These families increased their work effort by about the same percentage as those headed by high school graduates or those with some college, yet their material consumption standard increased by nearly a full third between 1973 and 1988.

. . . AND FOR WHAT?

Particularly for families where the breadwinners don't have much education, working harder hasn't meant higher living standards. The least educated, in fact, are still slipping further behind.



Source: Authors' calculations based on data from the PSID.

Unfortunately, such well-educated families comprise less than a third of all American dual-income families.

Feasting Before the Famine

To this point, we have been concerned with trends in hours worked and earnings for particular demographic groups. We now shift our attention to an equally important issue. What can we say about the year-to-year variation in work hours for individual workers? This is of obvious importance given the debate over the apparent growth in job insecurity. If a worker is insecure about his job, then it is possible he may voluntarily work as much overtime as he can in order to cushion the blow of depressed income from future joblessness. Or, for that matter, he may work extra hours because he has to pay off credit card debts that accumulated in the last bout of underemployment.

To study this issue, we again separate the PSID into two ten-year time frames corresponding to the 1970s (1969-1979) and the 1980s (1979-1989). To focus on prime age workers, we restrict our analysis of each decade to individuals who began at ages 24 to 48 and ended the decade at ages 34 to 58. This prime age range provides a sample of those who, for the most part, are old enough to have completed their formal schooling and not old enough to have begun cutting back their work hours in anticipation of retirement.

To measure inter-year variation in work hours for these prime age workers, we have developed a special measure we call "Hi-Lo." This statistic measures the proportion of individuals in a group who, during a decade, experience at least one year in which they work more than 2,400 hours and at least one year of 1,750 hours or less. The "Hi" value is equivalent to an average workweek of approximately 46 hours or more. The "Lo" value is equivalent to less than 35 hours per week. These cutoffs correspond to common definitions of "overtime" work and "part-time" work.

According to our analysis, among all prime age males, nearly three out of ten workers (28 percent) had at least one year of substantial "overtime" and at least one year of significant "underemployment" during the 1980s. Compared to the 1970s, the proportion of such individuals experiencing such hours variation was up by nearly 8 percent.

For black men, the incidence of Hi-Lo variation is substantially higher than among white men, with 37 percent of black men experiencing this variety of "feast and famine" employment history. Those who have completed a high school diploma or college degree appear to experience less hours variation than those who drop out of high school or do not complete college.

But by the far the strongest indicators of the feast-or-famine syndrome emerge when we break the Hi-Lo numbers down according to earnings levels and the number of job changes. Among men in the lowest 20 percent of the earnings ladder, four out of ten experience Hi-Lo hours variation—more than double those in the top 20 percent. Those who have low earnings even when they are working full-time are the most likely to experience a feast-and-famine work life. Not surprisingly, those who change employers more often face the highest rates of Hi-Lo activity. More than half of

prime age men who change employers at least four times in a decade face years of "overtime" and years of "underemployment." For women, the "overworked-underemployed" phenomenon expanded as well between the 1970s and 1980s. In the earlier decade, only 12 percent experienced such Hi-Lo work histories. In the 1980s, nearly 21 percent of women spent their lives on the work time roller coaster.

High school dropouts have seen a substantial rise in Hi-Lo activity between the two decades. But so have college graduates and the top-quintile earners. One might conjecture from these findings that those with the fewest skills and those in the ranks of middle managers have been particular victims of downsizing. Future research with the PSID should be able to provide more evidence to test this hypothesis.

Taken together, the results for men and women suggest that increased job instability has led to increased hours variability for men and increased hours and variability of work for women. While the data presented here cannot prove that male job instability causes men to work more overtime when it is available and at the same time increases women's workforce participation, the results are fully consistent with such a thesis. In short, we can conjecture that "underemployment" of men may be leading to "overwork" for families. Because Dad's work prospects are more uncertain than ever, Mom is working harder than ever before.

In the end, then, it turns out that both Schor and her critics were partially right. There is compelling evidence of both overwork and underemployment not only across the workforce, but for individual workers (particularly men) who may face bouts of full-time work interspersed with years in which part-time hours are the rule. In both the 1970s and the 1980s, more than one-quarter of men experienced a decade in which they worked at least one year of "overwork" (more than 46 hours per week) and at least one year of "underemployment" (less than 35 hours per week). How much of this is voluntary cannot be judged, but the finding is consistent with other research that shows growth in job instability and income insecurity. Adding to this evidence is our finding that those workers who change jobs more than four times in a decade are more than three times as likely to face bouts of "overwork" and "underemployment" as those who have at most one job change during the same period.

The reason for this overwork, ironically, turns out to be underemployment. Men are working overtime to compensate for expected job loss in the future. Women have expanded their work effort to cover for what otherwise would be a sharp reduction in family living standards.

What does this foreshadow for family and community? Americans will not find a better balance between work and leisure, between earning a living and spending time with loved ones, between wage earning and "civic engagement," until the economy provides long-term employment security and rising wages. If past is prologue, the last 25 years of U.S. labor market history should not make us sanguine about the possibilities.

There is serious political talk, now and then, about legislating shorter weeks. But no matter how much we may complain about being overworked and no matter how much we worry about latchkey kids, few American workers will support political action unless it is tied to a much broader set of policies aimed at improving material living standards along with more leisure.❑

FOR FURTHER READING

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John E. Bregger and Steven E. Haugen, "BLS Introduces New Range of Alternative Unemployment Measures," *Monthly Labor Review*, October, 1995.

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John P. Robinson and Ann Bostrom, "The Overestimated Workweek? What Time Diary Measures Suggest," *Monthly Labor Review*, August, 1994.

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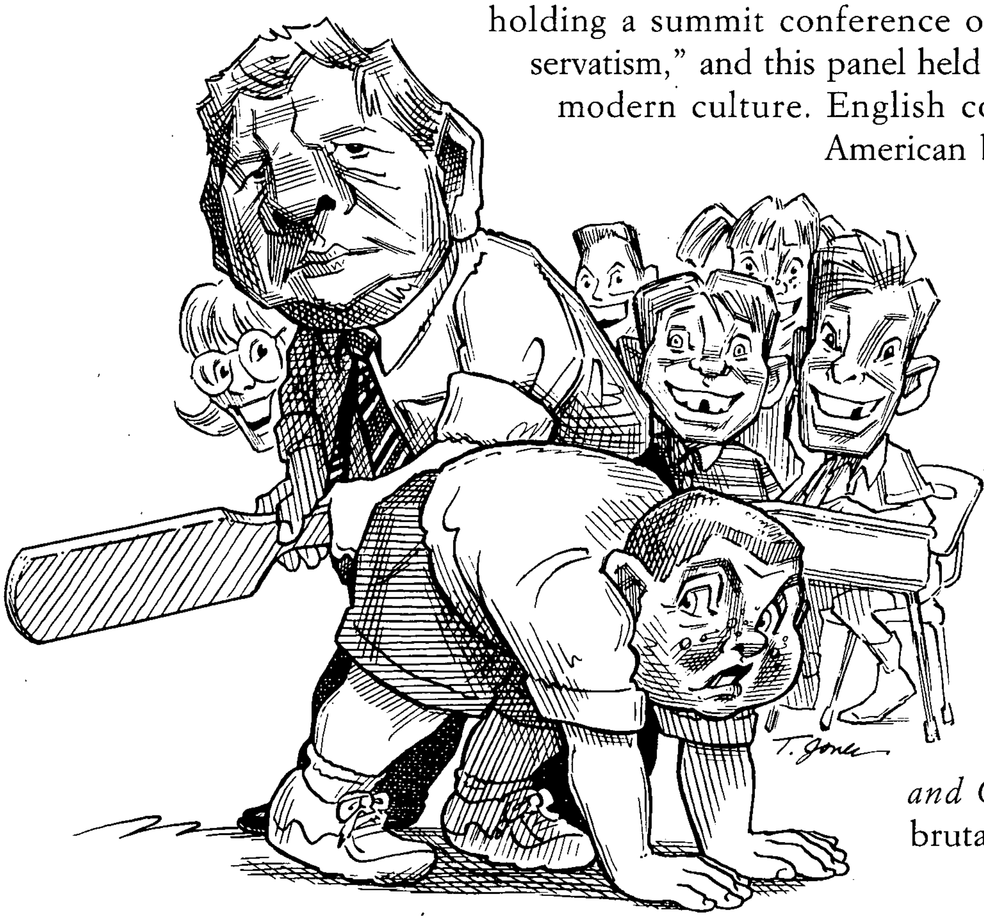
THE SHAMING SHAM

BY CARL F. HOROWITZ

"Punishment, ostracism, humiliation," thundered Tory essayist and avowed high-cholesterol gourmand Digby Anderson, slamming his fist onto the table. It was an unusual discussion panel I had stumbled upon at the Sheraton Washington Hotel in March 1994. National Review Institute, the in-house think tank of conservatism's flagship periodical, was holding a summit conference on "Challenges to Conservatism," and this panel held forth on the ailments of modern culture. English conservatives, like their American brethren, apparently see little but ailments. Anderson, the founder of the Social Affairs Unit, a London-based research institute, was certain he had the cure.



He would publish his bile the following year as part of a collection he edited for *National Review*'s press. Titled *This Will Hurt: The Restoration of Virtue and Civic Order*, the book's brutally proscriptive tone, its

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chillingly precise descriptions of how to deal with violators of proper social order, suggested an eighties-era *Saturday Night Live* skit, "The Anal Retentive Chef." But even a parody could not come up with chapters like "Administering Punishment Morally, Publicly, and Without Excuse," "Uniformity, Uniforms, and the Maintenance of Adult Authority," and "Ostracism and Disgrace in the Maintenance of a Precarious Social Order." Gertrude Himmelfarb's preface set the tone: "It is evident that we are suffering from a grievous moral disorder. . . . And that moral pathology requires strenuous moral purgatives and restoratives."

American acolytes of such collectivist tough love might not recommend to the decadent West the strategy of Afghanistan's theocratic government, where adulterers face a public execution by stoning in a mosque courtyard. Still, Senator Wayne Allard, Colorado Republican, who favors public hangings as a deterrent to street crime, wouldn't feel that to be completely out of place. Neither would former Education Secretary William Bennett, who once said he is not "morally opposed" to public beheadings of convicted drug dealers.

Taking Liberties With Liberty

Having lost the battles for government censorship, conservatives had to find some other way to stigmatize cultural enemies into feckless mush. Enter moral censorship, the New Ostracism, or simply, shame. It's the preferable alternative to official censorship, and it works—or, at least, that's what its champions would have the public believe. Candidate Bob Dole frequently called upon filmmakers and television producers to feel a "decent sense of shame"; popular conservative author and socialite Arianna Huffington coined the term "shamership" for precisely this end; *Newsweek* devoted its February 6, 1995, cover story to the subject of "shame."

By now the charges have hardened into editorial cant. Our culture is "coarsened." Hollywood and other media messengers are bombarding Americans with gratuitous sex and violence. The nuclear family is an endangered species. "Increasingly . . . individualism has gone awry, veering from self-reliance to self-indulgence," writes columnist Jay Ambrose. "Some Americans, it sometimes seems, can't differentiate liberty from libertinism." A certain desperation seems to have set in among these social critics. In its November issue, the conservative magazine *First Things* sponsored a symposium that included such luminaries as Robert Bork and Charles Colson. The theme was that America, long in the hands of alien forces within, may be so far gone as to require a revolution. Colson prayed it would not have to be violent—a sign, perhaps, that his Watergate days are not quite fully behind him.

The principal tool of their revolution is shame, for little else has sufficed. The election has given us four more years of Bill Clinton. A reduced welfare state, while desirable, won't deter the wealthy Unassimilated Other ("Hollywood") who don't need welfare in the first place. Philanthropy, even if guided by conservatives, can withhold, but cannot punish. Legal censorship, though needed in measured doses, is not feasible. Short of violence, shame is the best way to control errant behavior. "Where shame recovers vitality, the fear of shame can be a regulator of social conduct," wrote Michigan State University political philosopher William Allen in *This Will Hurt*.

> **Moral censorship has a capacity to intrude upon a person's privacy that no bureaucracy, federal or otherwise, can match.**

But here's the rub: Shame is an expression of collective will. It is not simple opposition, however vociferous, to someone who is objectionable. Author P.J. O'Rourke, with his periodic (and not quite entirely facetious) Enemies Lists, may seek to stigmatize those dreaded Birkenstock-wearing liberals who eat low-calorie yogurt and listen to National Public Radio. But as a muckraker, he needs some heavy-duty help. Shame enables communities to let oddballs know there is nowhere to run or hide. That means, by extension, each member not only must avoid shameful behavior, but also must join the ritual punishment of offenders. In a culture war, slackers need not apply. The challenge is to find people—moral censors—with the

will to lead such efforts.

Censors everywhere take an interest in culture mainly to rid every medium of expressions of immodesty. Today's censors are as clueless as their ancestors, save for their application of a faux-scientific "content analysis" better suited to the news than to the arts. Roughly speaking, that means conservative researchers train and pay people to watch television, and tote up the number of positive and negative references to the family, capitalism, and the military on ten randomly selected episodes of the *The Simpsons.* That way, L. Brent Bozell, III, chairman of the conservative watchdog group the Media Research Center, can throw red meat to activists and grouse: "During the so-called family hour, the depictions of sex outside of marriage outnumber those of it within marriage by a factor of 8 to 1." This is the sort of arid "cultural" perspective that cares not a whit for films with Woody Allen or Hugh Grant but very much about their stars' insufficient repentance for offscreen peccadilloes, always with the tantalizing possibility of driving them out of work.

Culture-war propaganda, which is all war and no culture, is descended loosely from the neoconservatives' appropriation of Karl Marx's idea of capitalism as its own gravedigger. In devolved propagandistic form, however, its already shaky arguments lack even a modicum of subtlety, something mirrored in its choice of political language. Routinely, these warriors of the right describe contemporary American culture with metaphors such as "sludge," "raw sewage," and "pollution." What we need are, as George Will would put it, "moral environmentalists." Pat Robertson has referred to American institutions as being run by termites, adding that the time has arrived for a "godly fumigation."

It won't help to poke fun at hyperbolic accusations and wildly exaggerated fears like these. Nor is there point in telling moral environmentalists that their tactics mimic the political correctness of the far left—an authoritarian mindset many conservatives (myself included) relentlessly attacked only a few years ago. Yet it can do some good to explain why peddling fear, conformity, repression, disgrace, and humiliation as instruments of social control not only will strategically backfire, but may also open the door to more pernicious activities by the state.

SHAME seeks to break the nonconformist's spirit and instill in him self-loathing.

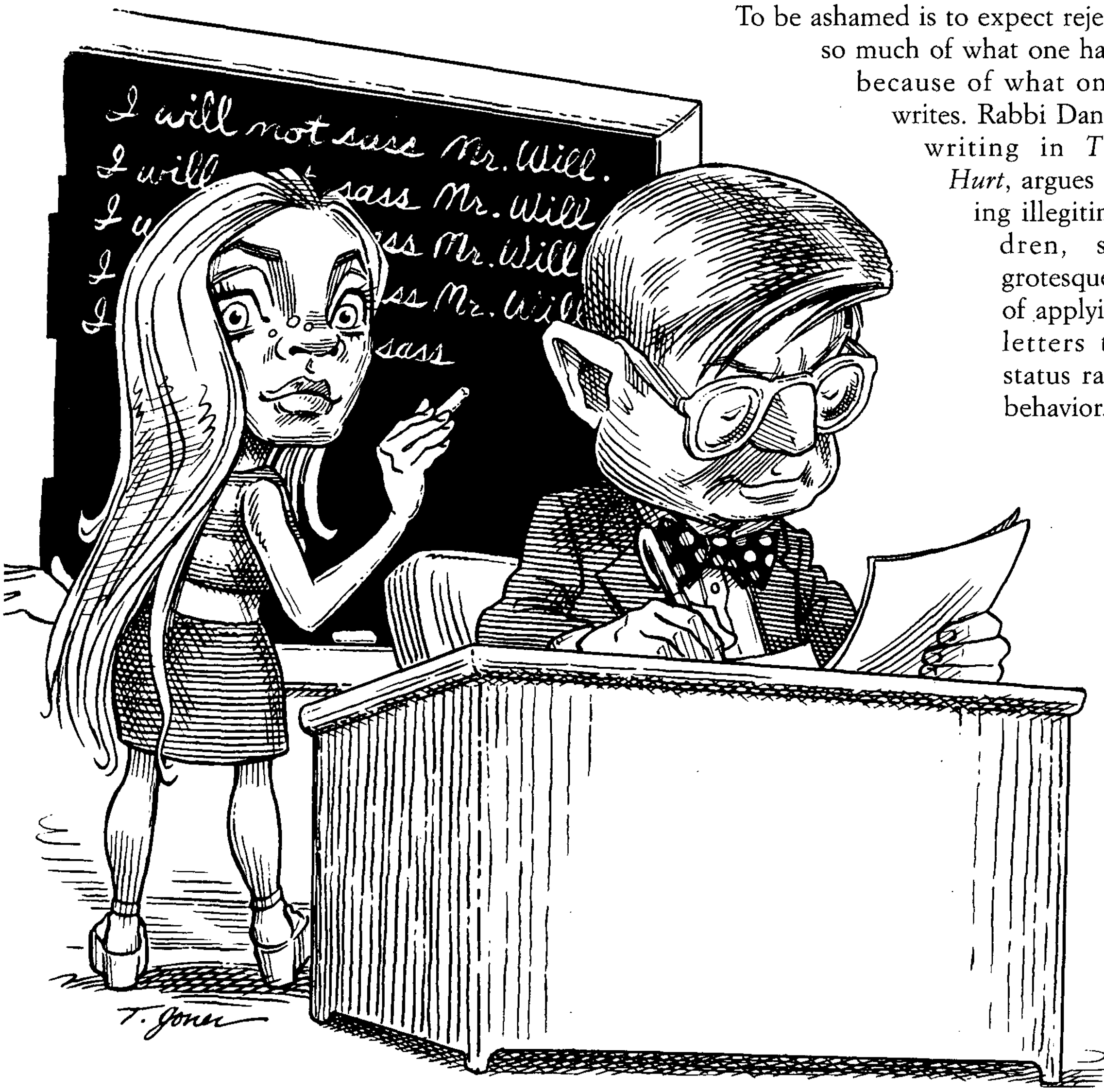
While pledging all due allegiance to the Bill of Rights, the new moral crusaders say that fear of ostracism, blacklisting, or a boycott is an efficient, "market-based" prod for self-policing within the artistic community. (How convenient that the free market and moral righteousness should be mutually reinforcing!) John Hood, president of the John Locke Foundation, a think tank based in Raleigh, North Carolina, offered the following defense of William Bennett and Charlton Heston's (successful) campaign to shame Time Warner into selling its stake in the perfidious Interscope Records: "Bennett and Heston never called for government action. Their chosen means of affecting corporate decision making were boycott threats and public shaming, both perfectly acceptable modes of discourse in a free society," he wrote in the July 1996 issue of *Reason* magazine.

Conservatives don't have the monopoly on this kind of thinking. Even generally liberal (or at least neoliberal) commentators like Jonathan Alter, writing in a recent issue of *Newsweek,* would have us believe there is a nice, clean philosophical line separating the censorship practiced by government through law and the censorship practiced by the private sector. Writes Alter: "Wal-Mart is not saying you can't make a CD full of explicit sex or gangster garbage; it's simply saying Wal-Mart won't sell it. Huge difference." The argument that groups acting outside of the political system have the right to set standards for decency and appropriate behavior also finds a voice in the communitarian movement, whose advocates include scholars (such as Michael Sandel) and political intellectuals (such as Amitai Etzioni) most observers would describe as progressive.

Yet private censorship doesn't look so harmless when you start to apply it. Sure, reflexive boycotts and shaming crusades by committees of cut-rate Comstocks technically fall within the realm of free

speech. But moral censorship has a capacity to intrude upon a person's privacy that no bureaucracy, federal or otherwise, can match. John Stuart Mill recognized more than a century ago why morally mobilized citizens, on the lookout for enemies, are society's ultimate censors. The informal social mandate, he observed, "practices a social tyranny more formidable than many kinds of political oppression, since, though not usually upheld by such extreme penalties, it leaves fewer means of escape, penetrating much more deeply into the details of life, and enslaving the soul itself." Protection against the tyranny of the magistrate would not be enough. Needed as well would be protection against "the tyranny of the prevailing opinion and feeling" that, as its goal, would "compel all characters to fashion themselves upon the model of its own."

Filmmaker Oliver Stone, a bête noire of America's shamers, knows this. He has pointed out, rightly, that shaming at heart is McCarthyist. Senator Joe McCarthy never disavowed the First Amendment; he instead favored bullying political and cultural enemies into "behaving," or, failing that, he drove them out of work. That's the main idea behind shaming in any era: to break the nonconformist's spirit, instill in him self-loathing, and induce him to turn on his former comrades-in-arms. A "shameful" person is less a criminal than one who hasn't cooperated with his putative moral betters, as clinical psychologist Robert Karen notes. "(S)hame itself is less clearly about morality than about conformity, acceptability, or character. To be ashamed is to expect rejection, not so much of what one has done as because of what one is," he writes. Rabbi Daniel Lapin, writing in *This Will Hurt*, argues for shaming illegitimate children, surely a grotesque example of applying scarlet letters to social status rather than behavior.



Never mind that the cultural conservatives say it takes Mom and Dad, not a village, to raise a child—they're interested in the village too. University of Houston political scientist Ross Lence, in *This Will Hurt*, argues that families have broken down because modern cities cannot provide the reputation-shattering gossip found in smaller communities. Can suburbs, at least, create a healthy moral climate? Probably not, argues Karl Zinsmeister, writing in the November-December 1996 issue of the *American Enterprise*, because their physical design precludes vigilant neighbors from acting in loco parentis. "In traditional communities," he observed, "neighbors watch for trouble and offer aid and encouragement to families. Children are expected to take direction respectfully from all adults. Relations between parents and offspring, and between husbands and wives, are subject to informal social regulation. If mistreatment or neglect occurs, ostracism and sanctions will come from the whole community." From such a standpoint, it takes a grid-style block to raise a child.

Of course, cultural conservatives usually balk about what to do about those pesky nonjoiners, but sometimes, among ostensibly friendly company, they let their guard down. I can recall a ghastly conversation I had in the early 1990s with a fellow Heritage Foundation policy analyst (who shall remain anonymous) on the subject of MTV. The network was a menace to the American family, he averred, but he noted a new technology (the V-chip) could enable parents to shield their children. I suggested in return that not all parents would be interested in such a contraption, and in fact some might even enjoy MTV. Chuckling and nodding his head, he responded: "We'll find out who these people are, and deal with them accordingly." He was not clear as to what he meant by "deal." I asked him if old-fashioned censorship would work. "I suppose it's too late for that," he answered. Too late! The implication was clear. If only we'd nipped Lenny Bruce, Hugh Hefner, William Burroughs, and Bob Dylan in the bud, the counterculture never would have grown out of control.

This leads to the second fatal design flaw of the campaign for moral censorship. Cultural conservatives would have people believe that shame merely substitutes for official censorship. They don't want to be faced with the messy possibility that it leads to, and reinforces, censorship. Try this quick exercise: Ask a "nice" cultural conservative what he or she would do if moral censorship fails to achieve its purpose. Shame, after all, only can transform people with the capacity and willingness to feel it. The typical, nervous response will be something on the order of, "Well, maybe some government censorship would work, though I wouldn't want to overdo it." It never occurs to such people that honest artists and intellectuals resent "some" censorship, and just might fight back to prevent more to come. Bassist Krist Novoselic, who played for the band Nirvana and is an active lobbyist against censorship, is not the only person to observe that the mind of the censor starts at the "weird" edges of creativity, and gradually works its way toward the center.

> INTIMIDATING citizens into self-censorship is the very stuff of political tyrants everywhere.

In a perverse way, we owe a debt of gratitude to such paladins of the radical right as the American Enterprise Institute's Robert Bork and Irving Kristol. They freely admit official censorship must accompany the moral kind. The eighth chapter of Bork's most recent book, *Slouching Towards Gomorrah*, is titled "The Case for Censorship"—as in government censorship. Obsessed with rooting out "filth" from everyday life, he acknowledges the "tactical necessity" of shamership a la Bob Dole and Bill Bennett, but then makes clear the unpleasant duty ahead. "Is censorship really as unthinkable as we all seem to assume?" he asks. "That it is unthinkable is a very recent conceit. From the earliest colonies on this continent over 300 years ago,

and for about 175 years of our existence as a nation, we endorsed and lived with censorship." For good measure, Bork adds, "By now we should have gotten over the liberal notion that its citizens' characters are none of the business of government." Meanwhile, Bork's AEI colleague, Irving Kristol (the husband of Gertrude Himmelfarb), weighs in with this blast at the film industry: "Censorship, some will say, is immoral—though no moral code of any society that has yet existed has ever deemed it so. And it is authoritarian. . . . (G)overnment, at various levels, will have to step in to help the parents. The difficult question is just how to intervene."

Bad Cop, Good Cop

All this naive zeal suggests a national campaign—notwithstanding the avowed fondness for devolving political authority back to the states and local government. The conservative fight is to save all of America, and more than ever the entertainment and communications industries cross political borders in this age of the Internet, cable television, and satellite dishes. Controlling the nexus of commerce and culture requires central direction—a White House culture czar, perhaps.

In this light, champions of shamership like Hood and Huffington are the "good" part of a bad cop-good cop interrogation team. Neither type of moral cop exhibits a glint of political wisdom, a vague sense of having absorbed a basic lesson of Hobbes, Mill, Kafka, or Camus that a climate of moral interrogation reinforces, rather than obviates, a popular longing for authoritarian strongmen. Neither type seems to grasp that intimidating citizens into self-censorship is the very stuff of political tyrants everywhere.

Moral conflict in politics is inevitable. And American conservatives have raised valid moral issues; there's no sense painting a happy face on drive-by shootings, crack addiction, or an estimated $40-billion-a-year's worth of telemarketing fraud. But their critique goes well beyond that, in their selective, highly charged use of facts, and in their touting of moral vigilantism as the price one pays to restore a supposedly lost normalcy. The arts, most of all, would suffer from politicization. Cultural conservatives, in a real sense, are today's Maoists, working to arrange a marriage of politics and culture into "uplifting" party-line agitprop. David Gelernter, computer scientist and cultural critic, is quite smitten with the idea of establishing a conservative museum of culture. As a carrot, the notion is as silly as a Marxist museum.

There has always been—and always will be—disagreement about the limits of free expression and thought. But whatever one's views on these matters, the point is that censorship through shaming isn't so different from the legal kind; it should be viewed with similar skepticism, and combated with similar zeal. Let us be frank here: Prominent figures in culture, commerce, and politics are going to have to play hardball with censorship-minded conservatives. To their credit, some cyberspace leaders are not taking the moral thuggery lightly. "We're not going to censor down to the lowest common denominator. We let people make choices," says America Online's CEO and president Steve Case. He knows that moral censors don't like people to have choices, which is why they practically ran over each other to support the Communications Decency Act, which a panel of federal judges had the abundant good sense to block from taking effect (this past December the Supreme Court agreed to review the case). Too bad the television industry didn't show more courage in resisting the spate of calls for tough, "voluntary" program ratings.

What is the likely result of this moral-legal crusade? What sort of bridge is it building for America's twenty-first century? A few strong hints can be gleaned from authoritarian paradises like Indonesia, Chile, and Singapore. Prosperity and fear coexist in those places—and conservatives like it that way. If none have artists and intellectuals of real significance (at least who can show their faces in public), families are protected. That's what really counts, right? Singapore has held out special promise for American virtuecrats, ever since it followed through on its promise to administer a brutal caning to a young American petty vandal, lending vivid meaning to the phrase, "This will hurt." Cal Thomas and Pat Buchanan, among other prominent conservatives, endorsed the punishment as the lad's just desserts. Thomas a few years earlier had praised Singapore's ban on the importation of Guns 'N Roses's *Use Your Illusion* double-CD release. That kind of tough talk may not exactly be fascism, but in America it's a fair imitation.❑

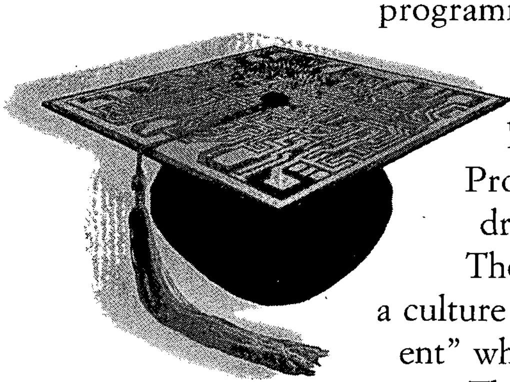
Seeing Through Computers

Education in a Culture of Simulation

BY SHERRY TURKLE

Today nearly everyone is certain that schools and universities should teach students about computers, but exactly what they should teach isn't so clear. The ideal of computer literacy, of an empowering relationship with the computer, has changed dramatically since educators and their critics first began worrying about making Americans computer literate two decades ago. Originally, the goal was teaching students how computers worked and how to write programs; if students could understand what was going on "inside" the computer, they would have mastery over it. Now the goal is to teach students how to use computer applications, on the premise that if they can work with the computer, they can forget what's inside and still be masters of the technology. But is that enough? And might it be too much in some fields of education where using computers is almost too easy a substitute for hands-on learning?

The uncertainty about what students (and the rest of us) need to know reflects a more general cultural change in the understanding of computers. When I first studied programming at Harvard in 1978, the professor introduced the computer to the class by calling it a giant calculator. No matter how complicated a computer might seem, what happened inside it could be mechanically unpacked. Programming, the professor reassured us, was a cut-and-dried technical activity whose rules were crystal clear.



These reassurances captured the essence of the computer in a culture of calculation. Computers were thought to be "transparent" when the users could look beyond the magic to the mechanism. The first personal computers of the 1970s and early 1980s, like the mainframes and minicomputers, required users to know how to issue exact instructions. Someone who knew programming could handle the challenge more easily. By the mid-1980s, increased processing power made it possible to build graphical user interfaces, commonly known by the acronym GUI, which hid the bare machine

from its user. The new opaque interfaces—the first popular one on the mass market was the 1984 Macintosh—represented more than a technical change. The Macintosh "desktop" introduced a way of thinking about the computer that put a premium on the manipulation of a surface simulation. The desktop's interactive objects, its dialogue boxes in which the computer "spoke" to its user, pointed toward new kinds of experience in which people did not so much command machines as enter into conversations with them. In personal relationships, we often interact without understanding what is going on within the other person; similarly, when we take things at (inter)face value in the culture of simulation, if a system performs for us, it has all the reality it needs.

In 1980, most computer users who spoke of transparency were referring to a transparency analogous to that of traditional machines, an ability to "open the hood" and poke around. But when users of the Macintosh talked about its transparency, they were talking about seeing their documents and programs represented by attractive and easy-to-interpret icons. They were referring to an ability to make things work without needing to go below the screen surface. Today, the word "transparency" has taken on its Macintosh meaning in both computer talk and colloquial language. In a culture of simulation, when people say that something is transparent, they mean that they can see how to make it work, not that they know how it works.

Most people over 30 years old (and even many younger ones) have had an introduction to computers similar to the one I received in my first programming course. But children growing up with computers today are dealing with objects that suggest that the fundamental lessons of computing that I was taught are wrong. The lessons of computing today have little to do with calculation and rules; instead they concern simulation, navigation, and interaction. The very image of the computer as a giant calculator has become quaint. Of course, there is still "calculation" going on within the computer, but it is no longer widely considered to be the important or interesting level to focus on. But then, what is the interesting and important level?

This article continues the series "The New Media and Learning," which opened with three articles in our July-August issue. All articles were originally presented at a conference sponsored by *The American Prospect* at the MIT Media Laboratory on June 4, 1996. Audiotapes of the presentations and discussion are available by calling 1-800-872-0162 or by ordering from our Web site (http://epn.org/prospect.html). The conference and articles were underwritten by a grant from the Spencer Foundation.

What's in an Algorithm?

Through the mid-1980s, when educators wanted to make the mechanism transparent, they taught about the logical processes of the computer's inner workings, typically beginning with an introduction to binary numbers, and instructed children in programming languages that would make computational processes transparent to them. In the highly influential *Mindstorms: Children, Computers, and Powerful Ideas*, published in 1980, Seymour Papert of the Massachusetts Institute of Technology wrote that learning about the computer should mean learning about the powerful ideas that the computer carries. In the Logo programming language he developed, children were taught to give explicit commands to a screen cursor known as a Turtle: FORWARD 100; RIGHT TURN 90. The commands cause the Turtle to trace geometric patterns that could be defined as programs. The idea behind the exercise went beyond the actual programs; Papert hoped that the process of writing these programs would teach children how to "think like a computer." The goal of the exercise was to experience procedural thinking and to understand how simple programs could be used as building blocks for more complex ones.

Although Logo is still in use, educators now most often think of computer literacy as the ability to use the computer as an information appliance for such purposes as running simulations, accessing CD-ROMs, and navigating the Internet. There is certainly nothing wrong and much that is right with students having those skills. But many teachers question whether mastery of those skills should be the goal of "computer education" or "computer literacy."

"It's not my job to instruct children in the use of an appliance and then to leave it at that," says an unhappy seventh-grade teacher at a June 1996 meeting of the Massachusetts chapter of an organization of "Computer Using Educators," a group known as MassCUE. Most of the 80 or so teachers present have been in computer education for over a decade. In the 1980s, many of them saw their primary job as

teaching the Logo programming language because they believed that it communicated important thinking skills. One teacher describes those days: "Logo was not about relating to the hardware of the computer, so it wasn't about how the computer 'worked' in any literal sense, but its claim was that it could teach about procedural thinking. It could teach about transparency at its level."

Another adds, reflecting on Logo: "The point was not that children needed to understand things about the simplest level of how the hardware worked, but that things needed to be translated down to an appropriate level, I mean, a relevant level." Someone asks how she knows what is relevant. She stumbles, and looks around to her fellow teachers questioningly. A colleague tries to offer some help: "You have to offer children some model of how a computer works because the computer needs to be demystified. Children need to know that it is a mechanism, a mechanism that they control."

By now, the conversation is animated. Several teachers disagree, arguing that teaching that the computer is a controllable mechanism is not enough. One says: "Children know that the telephone is a mechanism and that they control it. But it's not enough to have that kind of understanding about the computer. You have to know how a simulation works. You have to know what an algorithm is." The problem, however, may be that a new generation no longer believes they have to know what an algorithm is.

Walking Through the Machine

The changing exhibits at Boston's Computer Museum illustrate the evolution of ideas about how to present computers and the dilemmas that educators now face. Oliver Strimpel, the museum's current director, proposed the idea for a "Walk-Through Computer" exhibit in 1987 when he was director of exhibits. Strimpel describes his original idea in the language of a computer transparent to its users: "I wanted to blow up the computer so that its invisible processes could be made visible. I wanted people to understand the computer from the bottom up." The exhibit opened in 1990, its trademark a room-size computer keyboard, a keyboard kids could play on.

At that time, the exhibit began by introducing the visitor to a computer program that charted the shortest route between two cities, *World Traveller*. All that followed was designed to help the visitor trace how a keyboard command to *World Traveller* was translated to lower and lower levels in the machine—all the way down to the changing patterns of electrons on a computer chip. "The key to my thinking," says Strimpel, "was the idea of levels, of layers. We worked very hard to show several levels of how a computer worked, trying to take visitors along the long conceptual path from the behavior of a program to the anatomy of the hardware and low-level software that made it all work. We built 'viewports' that attempted to give people a look inside key components such as the CPU, disk, and RAM."

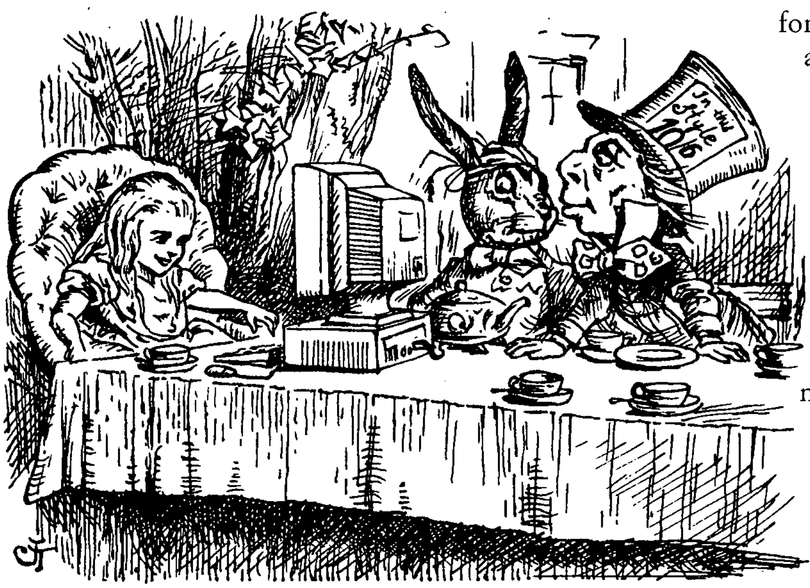
By 1995, it was time to update the exhibit. The museum's studies of visitor reaction to the original exhibit had shown that many people went through the exhibit without understanding the notion of layering or the message of the viewports. In focus groups conducted by the staff, children said they wanted to know what "happened" when you touched a key on a computer. Their question encouraged Strimpel to go into the first planning meetings committed to a new exhibit that would show the translation of a keyboard stroke into a meaningful signal—the connection between the user's action and the computer's response. He imagined that with improved technology and more exhibit experience, a new version of the walk-through computer could communicate layering in a more sophisticated way.

But Strimpel, in his forties, a member of the "culture of calculation," did not prevail. The people on his staff, mostly in their twenties, were products of the culture of simulation. "What seemed important to them when we went to our second version," says Strimpel wistfully, "was explaining the functionalities—what a disk drive does, what a CD-ROM player does, not how the chip worked. The revised exhibit does not attempt to give explanations at different levels." In the culture of simulation one does not dwell on how the computer solves "its" problems. What is important is that it solves your problems. Strimpel had insisted that the original walk-through computer stress the notion of algorithm. "You could look into a blow-up of how information was passed from one part of the program to another as it attacked the problem of finding the shortest distance between two points," says Strimpel. "In the second exhibit, the idea of algorithm dropped out."

In the revised exhibit, the presentation of a giant, walk-through machine was maintained, updated now to look more like a modern desktop

PC. The walk-through computer had quickly become the museum's trademark. But its function was now purely iconic. As Strimpel puts it, "The giant keyboard became a piece of sculpture."

Boston-area schoolteachers regularly take their students to the Computer Museum. They praise the richness of its special exhibits, the many chances it offers for students to try out computer applications to which they would not otherwise have access. Students learn how buildings and cars and turnpikes are designed. They play with voice recognition and artificial intelligence. Teachers praise the museum's internet exhibits; their students can go online at speeds and with display technology that they cannot even demonstrate in their schools.



But at the MassCUE meeting, the very mention of the walk-through computer provokes heated debate. Several teachers remark that children get excited by the exhibit, but other teachers are skeptical. One comments: "Sometimes, the fifth graders go through that and ask, 'What were we supposed to learn?' But what's worse is that lots of them don't even ask what they were supposed to learn. They're used to the computer as a black box, something you take 'as-is.'" Another teacher says: "When you look in a microscope at a cell and the cell gets bigger and bigger, you are learning that you can see more structure when you change the scale. With the walk-through computer, you get a keyboard big enough to sit on. For these kids, it's just part of taking for granted that you can make a computer bigger and bigger but that doesn't mean that you can see it better."

At the MassCUE discussion, one currently popular position about computer literacy is underrepresented. This is the view that computer literacy should no longer be about the computer at all but rather about the application programs you can run on it. The arguments for this position are strong. One is grounded in practical, economic concerns. Entering today's workforce requires fluency with software. Word processors, spreadsheets, databases, internet search engines, computer-aided design programs—these are the tools of contemporary trades. Learning to use these tools demands a new kind of craftsmanship, one that confers a competitive edge. Additionally, like all craftsmanship, there is a thin line between craft and artistry. These tools, artfully used, enable users to discover new solutions to old problems and to explore problems that were never previously envisaged.

Another argument for software fluency as an educational goal goes beyond such practicalities to a more philosophical point. The computer is a simulation machine. The world of simulation is the new stage for playing out our fantasies, both emotional and intellectual. The walk-through computer is its theater, its perfect icon. From this point of view, what children need to know is how to play on this new stage, how to sort out the complex relationship between the simulated and the "real," between representations of the world and the world itself. The "hands-on" manipulation of software may bring these heady issues down to earth. An eleven-year-old child who spends an afternoon manipulating images on Adobe *Photoshop*, creating landscapes that exist only within the computer, may use the software as an object-to-think-with for thinking through issues at the center of contemporary cultural debate. And yet it is often the case—too often the case—that experiences with simulation do not open up questions but close them down.

Simulation and its Discontents

In the 1980s, the controversy in the world of computers and education was about whether com-

puter literacy should be about programming. Would an emphasis on programming skills in the curriculum teach something important, or would it, as some feared in the parlance of the time, turn children into "linear thinkers"? Today, the debate about computers in education centers around the place of educational software and simulations in the curriculum.

"Your orgot is being eaten up," flashes the message on the screen. It is a rainy Sunday afternoon and I am with Tim, 13. We are playing *SimLife*, Tim's favorite computer game, which sets its users the task of creating a functioning ecosystem. "What's an orgot?" I ask Tim. He doesn't know. "I just ignore that," he says confidently. "You don't need to know that kind of stuff to play." I suppose I look unhappy, haunted by a lifetime habit of not proceeding to step two before I understand step one, because Tim tries to appease me by coming up with a working definition of orgot. "I think it is sort of like an organism. I never read that, but just from playing, I would say that's what it is."

A few minutes later the game informs us: "Your fig orgot moved to another species." I say nothing, but Tim reads my mind and shows compassion: "Don't let it bother you if you don't understand. I just say to myself that I probably won't be able to understand the whole game any time soon. So I just play." I begin to look through dictionaries in which orgot is not listed and finally find a reference to it embedded in the game itself, in a file called READ ME. The text apologizes for the fact that orgot has been given several and in some ways contradictory meanings in this version of *SimLife*, but one of them is close to organism. Tim was right—enough.

Tim's approach to *SimLife* is highly functional. He says he learned his style of play from video games: "Even though *SimLife*'s not a video game, you can play it like one." By this he means that in *SimLife*, like video games, one learns from the process of play. You do not first read a rule book or get your terms straight. Tim is able to act on an intuitive sense of what will work without understanding the rules that underlie the game's behavior. His response to *SimLife*—comfort at play, without much understanding of the model that underlies the game—is precisely why educators worry that students may not be learning much when they use learning software.

Just as some teachers do not want to be "reduced" to instructing children in a computer "appliance," many resent providing instruction in a learning environment that often strikes them as an overblown video game. The question of simulation is posed from preschool through the college years. Why should four-year-olds manipulate virtual magnets to pick up virtual pins? Why should seven-year-olds add virtual ballast to virtual ships? Why should fifteen-year-olds pour virtual chemicals into virtual beakers? Why should eighteen-year-olds do virtual experiments in virtual physics laboratories? The answer to these questions is often: because the simulations are less expensive; because there are not enough science teachers. But these answers beg a large question: Are we using computer technology not because it teaches best but because we have lost the political will to fund education adequately?

Even at MIT, the effort to give students ready access to simulation tools has provoked an intense and long-lived debate. In the School of Architecture and Planning, for example, there was sharp disagreement about the impact of computer-aided design tools. Some faculty said that computers were useful insofar as they compensated for a lack of drawing skills; others complained that the results had a lower aesthetic value, making the architect more of an engineer and less of an artist. Some claimed that computers encouraged flexibility in design. Others complained that they made it easier for students to get lost in a multitude of options. Some faculty believed that computer-aided design was producing novel solutions to old problems. Others insisted that these solutions were novel and sterile. Most faculty agreed that the computer helped them generate more precise drawings, but many described a loss of attachment to their work. One put it this way:

> I can lose this piece of paper in the street and if [a day later] I walk on the street and see it, I'll know that I drew it. With a drawing that I do on the computer . . . I might not even know that it's mine.

Another architecture professor felt that simulation not only encourages detachment from one's work, but detachment from real life:

> Students can look at the screen and work at it for a while without learning the topography of a site, without really getting it in their head as clearly as they would if they knew it in other ways, through traditional drawing for example. . . . When you

draw a site, when you put in the contour lines and the trees, it becomes ingrained in your mind. You come to know the site in a way that is not possible with the computer.

In the physics department, the debate about simulation was even sharper. Only a small subset of real-world physics problems can be solved by purely mathematical, analytical techniques. Most require experimentation in which one conducts trials, evaluates results, and fits a curve through the resulting data. Not only does the computer make such inductive solutions easier, but as a practical matter, it also makes many of them possible for the first time. As one faculty member put it:

> A student can take thousands of curves and develop a feeling for the data. Before the computer, nobody did that because it was too much work. Now, you can ask a question and say, "Let's try it." The machine does not distance students from the real, it brings them closer to it.

But Victor Weisskopf, an emeritus professor who had for many years been chair of MIT's physics department, provided a resonant slogan for the anti-computer group. When colleagues showed him their computer printouts, Weisskopf was fond of saying, "When you show me that result, the computer understands the answer, but I don't think you understand the answer." Physicists in the anticomputer camp speak reverently of the power of direct, physical experiences in their own introductions to science, of "learning Newton's laws by playing baseball." For one, simulation is the enemy of good science. "I like physical objects that I touch, smell, bite into," he said. "The idea of making a simulation . . . excuse me, but that's like masturbation."

There is general agreement that since you can't learn about the quantum world by playing baseball, only a computer simulation can provide visual intuitions about what it would look like to travel down a road at nearly the speed of light. But beyond that, simulations are controversial. The pro-simulation faculty stresses that computers make it possible to play with different parameters and see how systems react in real time, giving students an experience of "living physics," but the opposing camp thinks that using simulation when you could directly measure the real world is close to blasphemy. One puts it this way:

> My students know more and more about computer reality, but less and less about the real world. And they no longer even really know about computer reality, because the simulations have become so complex that people don't build them any more. They just buy them and can't get beneath the surface. If the assumptions behind some simulation were flawed, my students wouldn't even know where or how to look for the problem. So I'm afraid that where we are going here is towards *Physics: The Movie.*

Readership in a Culture of Simulation

Of course, both sides of the debating faculty at MIT are right. Simulations, whether in a game like *SimLife* or in a physics laboratory or computer-aided-design application, do teach users how to think in an active way about complex phenomena as dynamic, evolving systems. And they also get people accustomed to manipulating a system whose core assumptions they may not understand and that may or may not be "true." Simulations enable us to abdicate authority to the simulation; they give us permission to accept the opacity of the model that plays itself out on our screens.

Writing in this journal ["Seductions of Sim: Policy as a Simulation Game," Spring 1994], Paul Starr has pointed out that this very abdication of authority (and acceptance of opacity) corresponds to the way simulations are sometimes used in the real worlds of politics, economics, and social planning. Perhaps screen simulations on our personal computers can be a form of consciousness-raising. Starr makes it clear that while it is easy to criticize such games as *SimCity* and *SimHealth* for their hidden assumptions, we tolerate opaque simulations in other spheres. Social policymakers regularly deal with complex systems that they seek to understand through computer models that are used as the basis for actions. Policymaking, says Starr, "inevitably re[lies] on imperfect models and simplifying assumptions that the media, the public, and even policymakers themselves generally don't understand." He adds, writing about Washington and the power of the Congressional Budget Office, America's "official simulator," "We shall be working and thinking in *SimCity* for a long time." So, simulation games are not just objects for thinking about the real world but also cause us to reflect on how the

real world has itself become a simulation game.

The seduction of simulation invites several possible responses. One can accept simulations on their own terms, the stance that Tim encouraged me to take, the stance that Starr was encouraged to take by Washington colleagues who insisted that even if the models are wrong, he needed to use the official models to get anything done. This might be called simulation resignation. Or one can reject simulations to whatever degree possible, the position taken by the MIT physicists who saw them as a thoroughly destructive force in science education. This might be called simulation denial.

But one can imagine a third response. This would take the cultural pervasiveness of simulation as a challenge to develop a new social criticism. This new criticism would discriminate among simulations. It would take as its goal the development of simulations that help their users understand and challenge their model's built-in assumptions.

I think of this new criticism as the basis for a new class of skills: readership skills for the culture of simulation. On one level, high school sophomores playing *SimCity* for two hours may learn more about city planning than they would pick up from a textbook, but on another level they may not know how to think about what they are doing. When I interview a tenth grader named Marcia about *SimCity*, she boasts of her prowess and reels off her "top ten most useful rules of Sim." Among these, number six grabs my attention: "Raising taxes always leads to riots."

Marcia seems to have no language for discriminating between this rule of the game and the rules that operate in a "real" city. She has never programmed a computer. She has never constructed a simulation. She has no language for asking how one might write the game so that increased taxes led to increased productivity and social harmony. And she certainly does not see herself as someone who could change the rules. Like Tim confronted with the orgot, she does not know how to "read" a simulation. Marcia is like someone who can pronounce the words in a book but doesn't understand what they mean. She does not know how to measure, criticize, or judge what she is learning. We are back to the idea over which the MassCUE teacher stumbled when trying to describe the notion of an "appropriate" level at which to understand computers and the programs that animate them. When Oliver Strimpel talked about wanting to use the computer museum as a place to teach the power of a transparent understanding of the layers of the machine, he was talking about understanding the "naked" computer. As we face computers and operating systems of an increasingly dizzying size and complexity, this possibility feels so remote that it is easy to dismiss such yearnings as old-fashioned. But Marcia's situation—she is a fluent "user" but not a fluent thinker—re-poses the question in urgent terms. Marcia may not need to see the registers on her computer or the changing charges on a computer chip, but she needs to see something. She needs to be working with simulations that teach her about the nature of simulation itself, that teach her enough about how to build her own simulation that she becomes a literate "reader" of the new medium.

Increasingly, understanding the assumptions that underlie simulation is a key element of political power. People who understand the distortions imposed by simulations are in a position to call for more direct economic and political feedback, new kinds of representation, more channels of information. They may demand greater transparency in their simulations; they may demand that the games we play (particularly the ones we use to make real-life decisions) make their underlying models more accessible.

We come to written text with centuries-long habits of readership. At the very least, we have learned to begin with the journalist's traditional questions: who, what, when, where, why, and how. Who wrote these words, what is their message, why were they written, how are they situated in time and place, politically and socially? A central goal for computer education must now be to teach students to interrogate simulations in much the same spirit. The specific questions may be different but the intent is the same: to develop habits of readership appropriate to a culture of simulation.

Walt Whitman once wrote: "There was a child went forth every day. And the first object he look'd upon, that object he became." We make our technologies, our objects, but then the objects of our lives shape us in turn. Our new objects have scintillating, pulsating surfaces; they invite playful exploration; they are dynamic, seductive, and elusive. They encourage us to move away from reductive analysis as a model of understanding. It is not clear what we are becoming when we look upon them—or that we yet know how to see through them.❑

JEFF MADRICK

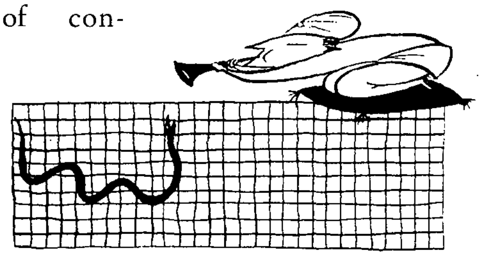
Spin Cycle

The many economists who criticized Bob Dole's campaign pledge to cut taxes by 15 percent this fall cited the record of the 1980s as a convincing example that such a deep tax cut would not generate enough economic growth to pay for itself. As federal deficits grew through the 1980s, what we got instead, of course, was a quintupling of the national debt, high real interest rates, an overvalued dollar, and, to the ongoing consternation of Reagan revolution boosters, a low rate of savings. What's more, when measured over the business cycle, gross domestic product (GDP) continued to grow as slowly as it had in the 1970s, and there was no improvement in labor productivity growth.

Defenders of President Reagan's record would have none of this. They mounted a predictably swift response. But, as hard as they tried, they could come up with no new weapons to fight the battle. Rather, they fell back on what has become an old standby, which is to ignore distortions in the record caused by the ups and downs of the business cycle. Books like *The Seven Fat Years*, by the *Wall Street Journal* editorial chief Robert L. Bartley, were widely criticized for painting the Reagan record in a glorious light by only counting the good years and excluding the severe 1982 recession. A book called *The Eight Fat Years* would have had significantly different results. But chastisement has not deterred the supporters of the Reagan record—including some eminent scholars from the nation's great universities—from doing it all over again.

> Tall tales about labor productivity growth

Alan Reynolds, a charter supply-sider and now the director of economic research for the Hudson Institute, presented probably the classic example of this rebuttal technique in the October 14, 1996, issue of the *National Review*. The irony is that Reynolds, perhaps humbled a bit, went out of his way in this piece to make the claim that he would adjust for the business cycle. In fact, he did nothing of the sort. "To avoid being misled by the business cycle, growth should be measured from one business-cycle peak to the next," Reynolds quoted one of the vociferous critics of supply-side economics, the Concord Coalition. So far, so good. He then went on to complain that the Concord Coalition is distorting the record when it compares the annual rate of real GDP growth between 1969 and 1980, which was about 3.4 percent, to the slow growth rate of the 1980s. He has a point. The rate of economic growth during the business cycle between 1973 and 1980 was markedly slower than between 1969 and 1973. He delightedly reported that real GDP grew from the cycle peak in the fourth quarter of 1973 to the next peak in the first quarter of 1980 by only 16.2 percent. By con-



trast, real GDP grew by 32.8 percent between 1980 and 1990. On this he rested his case.

But something is fundamentally amiss here: Reynolds was comparing growth over a six-year period to growth over a ten-year period. In the 11 years between 1969 and 1980, GDP grew by well more than 40 per-

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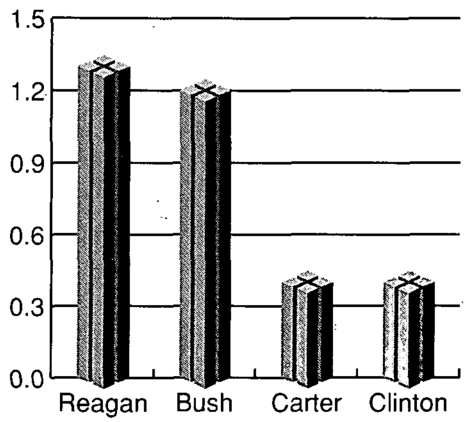
cent, for example. In order to adjust for the business cycle, all one needs to do is compute the annual rate of growth over each period. Did the Reagan revolution improve the annual rate of growth compared to the record of the latter two-thirds of the 1970s? Reynolds didn't bother to run the numbers, even though he gave himself a decided advantage by citing the wrong real GDP data for the first quarter of 1980—he reported it as $4,574 trillion when in fact it was $4,674 trillion. Whether this was a simple mistake or wishful thinking, it certainly helped his cause. Real GDP rose by 19 percent between 1973 and 1980 rather than by the 16 percent he reports.

And the annual rates of growth? Real GDP grew by 2.9 percent a year between the quarterly peak in 1973 and the peak in 1980. It grew by only 2.8 percent a year between the quarterly peak in 1980 and the peak in 1990. So much for the corrective power of the Reagan tax cuts. No wonder Reynolds failed to do the computation for us.

A Tall Tale

This graph shows annual labor productivity growth by administration, *not adjusted for the business cycle*. In this depiction, productivity was significantly higher in the Reagan-Bush era than it was in either the Carter or Clinton years.



Tayloring the Numbers

One might expect such slick and sloppy analysis from editorialists and Washington policy lobbyists. But well-respected scholars from the nation's best universities have also felt free to neglect the effects of the business cycle when it comes to justifying their political points of view. Robert Barro, a professor of economics at Harvard, presented one of the more memorable examples of this kind of oversimplification in September of 1992. In an op-ed for the *Wall Street Journal*, Barro graded presidential administrations for economic performance based on a version of the so-called misery index, which combines the unemployment rate and the inflation rate. Because reductions in inflation and unemployment are given equal weight in this computation, the sharply falling inflation during Reagan's years helped rank his terms first and second, according to Barro, out of the eleven presidential terms of the post-World War II period. No matter that the Federal Reserve deserved most of the credit.

Barro went on to supplement the traditional index with a bonus for lowering interest rates as well—even though interest rates and inflation are closely correlated, so when one falls so usually does the other. Try to get that one by a Ph.D. dissertation committee. But this bit of double counting nudged the Bush record a little higher, and Barro awarded him a "gentleman's B," even though Barro admitted that under Bush the economy grew more slowly than under any other administration. The more important point was that Barro didn't take the business cycle into account at all. Instead, he simply measured performance over the four years of each administration compared to the years that preceded it. President Carter ranked worst on Barro's list. But his performance would have been significantly better had it been adjusted for the business cycle, because the Carter years did not include the first year of the economic recovery, in which growth is usually the fastest and the unemployment rate falls the most.

Barro may have had his tongue slightly in cheek. But John Taylor, the Stanford University economist and advisor to presidential candidate Bob Dole, recently committed to paper one of the more egregious examples of this sort of analysis, and one that sig-

nificantly damages our understanding of recent economic history. In the final weeks of the presidential election campaign last October, Taylor wrote an unusually disturbing piece for the editorial page of the *Wall Street Journal* (October 18, 1996). His objective was to make a case for lowering taxes and reducing regulations. The evidence he chose to cite was the record of labor productivity growth in the Reagan-Bush years, which was indeed higher than it was in the Carter and Clinton years.

Let's remember that Taylor was on Bush's Council of Economic Advisers, so a little bias is understandable. But to ignore completely the influence of the business cycle over productivity growth rates, as Taylor did, goes well beyond acceptable bounds. If we were to choose a single measure for rating the nation's economic performance, I would agree that productivity should be the one. Labor productivity is simply the output of goods and services per hour of work, and it has been the source of the growing standard of living ever since the industrial revolution began.

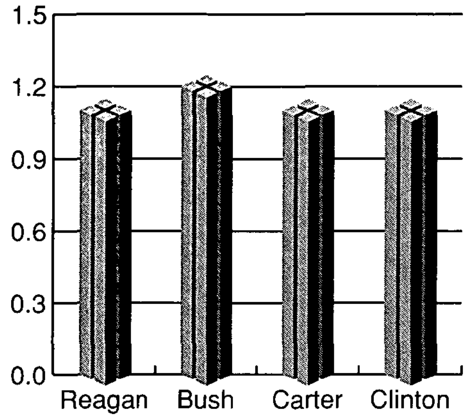
But labor productivity is tied to the business cycle. In the first year of a business recovery, for example, labor productivity almost invariably rises the fastest as GDP bounces off the bottom of the cycle and as companies remain cautious about adding workers (keeping output per worker high) until they are certain business has truly recovered. As the expansion lengthens, productivity gains begin to peter out and sometimes productivity even shrinks before the next recession begins. Finally, during recessionary years, productivity does indeed usually fall (negative growth) as GDP falls. Thus, to find the trend rate of productivity growth, you should measure it over the course of an entire cycle. If a president's four-year term does not include a full cycle, you can't measure the true course of productivity without making adjustments. And few four-year terms have included such a complete cycle.

But Taylor computed the annual labor productivity growth rates for each administration by calendar years, without business cycle adjustments. My own computa-

tions of these non-business-cycle-adjusted productivity rates under the last four administrations differ only slightly from Taylor's (see "The Real Deal"). Over Reagan's two administrations, labor productivity grew by a rate of 1.3 percent a year. In President Bush's administration it grew by 1.2 percent a year. In the Carter and Clinton years (up to mid-1996), labor productivity grew at only 0.4 percent a year. Taylor compared the Clinton performance to the bad old days before the Industrial Revolution. This is "close to the zero growth of pre-Industrial Revolution days," he wrote. "At that rate it would take 10 generations to double a person's income." And he, of course, attributed the better performance of the Reagan-Bush years to lower taxes and less regulation. (Incidentally, under Barro's report card system, which ignores productivity, I am pretty certain that Clinton would have earned an A.)

The Real Deal

Here we graph the productivity record, properly adjusting for the business cycle. The variation, it turns out, is small.



When we properly adjust for the business cycle, however, the results are nothing like what Taylor purported they are. First, let's consider the two Reagan administrations. Reagan left office in 1988, two years before the cycle ended—years during which productivity growth flagged. Between when Reagan took office in 1981 (a cycle peak) and 1990, labor productivity grew at a rate of only 1.1 percent a year.

Oddly enough, the four Bush years do indeed represent a fairly complete business cycle, though an inverted one of sorts. Bush's term began with the modest growth of the tail end of the long Reagan expansion, then dropped into a moderate recession, followed by recovery in 1992. In that last year, labor productivity grew rapidly, as it typically does in the first year of expansion. Over the four Bush years, labor productivity grew by 1.2 percent a year, as noted.

The Carter years between 1977 and 1980 include a recession but exclude 1976, the first full year of recovery, in which labor productivity grew by 3.6 percent. If we include that year in the Carter record, which would complete the cycle, we would find that labor productivity grew by 1.1 percent a year. Similarly, the first Clinton term does not include 1992, the first full year of recovery, in which productivity rose by 3.2 percent. If 1992 were included, productivity in the Clinton years would have risen by 1.1 percent a year. (Although the Clinton record, it should be noted, is as yet recession-free.)

Non-economists may well ask why Carter and Clinton should be credited for recoveries that did not begin on their watch. (There is, of course, a serious question about whether any president should be credited for igniting a business recovery even when it occurs in his administration.) But the goal is not to give Carter or Clinton credit for economic expansion that had nothing to do with their policies. The point is that if we are to compare records on productivity growth, it must be done over the same part of the business cycle, and preferably it should be over an entire business cycle if we are to determine the long-term trend. Others may also insist that we should give Reagan credit for the length of his business expansion. But let's keep in mind that the durability of the 1980s expansion, unlike the one in the 1960s, came at the expense of building a mountain of debt. And, again, the question is whether the long-term course of productivity growth was altered under Reagan's administration. The answer is that it was not. The 1.6 percent productivity growth

from the 1982 bottom of the cycle, so frequently cited by the Reagan boosters, takes into account neither the drop in productivity during the Reagan recession nor the flagging rate of growth in the final two years of the Reagan expansion presided over by George Bush. In fact, the final GDP data for 1990, which showed that productivity had grown at only an annual rate of 0.4 percent over the four years between 1986 and 1990, ought to have caused John Taylor many sleepless nights. But somehow I doubt that he rushed to phone Bush's Council of Economic Advisers to warn his colleagues that their policies were responsible for a rate of productivity growth no higher than the pre-Industrial Revolution era.

Anemic Productivity Growth

What is so damaging about Taylor's analysis is that it ignores what, in my view, is the most important fact about the economy over the past quarter century. Under Democratic and Republican administrations alike, labor productivity has continued to grow at a rate of about 1 percent a year. This is less than half the average rate of productivity growth since 1870, which economic historians place at 2.25 percent a year. It is well below the rapid rate of productivity growth of nearly 3 percent a year reached in the 25 years after World War II. The Reagan revolution could not raise the peak-to-peak rate of productivity growth above 1 percent a year between 1979 and 1990. Since the cyclical peak in 1990, it is still growing at about 1 percent a year.

In sum, this historically slow rate of productivity growth has held through periods of inflation and disinflation, high and low real interest rates, soaring and falling oil prices, an overvalued and an undervalued dollar, tax cuts and tax hikes, union strength and union weakness, deregulation and even a bit of reregulation. This is the central fact of our current economic circumstances. Such a history over a quarter of a century suggests that we may well have to adjust to slow labor productivity growth indefinitely. But it also suggests that we should search imaginatively for ideas that have not yet been tested.

Economists sometimes seem to be infinitely flexible; they can find support for their theories whatever the historical facts. Some will claim that productivity did not rise more rapidly because we did not cut taxes enough in the 1980s. Others will say the Federal Reserve has yet to create an environment of low real interest rates without high inflation. My own preference is to think about what we have not had. We have badly neglected long-term, high-risk private investment as well as basic research. We have also underinvested in key public goods, from daycare to infrastructure, urban centers, education for the less well off, and federal research and development. What we should not pretend is that there is evidence from the past 25 years that demonstrates which policies have worked to sustain and enhance productivity. Certainly, there is no evidence to support Taylor's contention that a combination of income tax cuts, capital gains tax cuts, and fewer regulations has improved America's economic prospects.

> For the last quarter century, labor productivity has continued to grow at about 1 percent a year.

The expansion of the 1990s may yet hold more bad news. The next recession could push the trend rate of productivity growth lower than 1 percent a year. Some observers still plead that the productivity of services is being underestimated and that inflation is overstated. But even if this were true, there is no reason to think that these mismeasurements are significantly greater in the 1990s than they were in the 1980s or throughout the postwar period. Product and services quality rose rapidly then too—is MRI technology a more significant advance than the polio vaccine? Had John Taylor devoted himself to demonstrating how little progress we have made in the 1990s toward improving labor productivity, despite the Clinton expansion, he would have done a service. Instead, he has distorted the record. The respected economist adds his name to a lengthening list of those who are willing to ignore the most basic conventions of economic analysis to make their case.❑

MICHAEL KAZIN

The White Rage

WORKS DISCUSSED IN THIS ESSAY

Morris Dees with James Corcoran, *Gathering Storm: America's Militia Threat* (HarperCollins, 1996).

Kenneth S. Stern, *A Force Upon the Plain: The American Militia Movement and the Politics of Hate* (Simon and Schuster, 1996).

Catherine McNicol Stock, *Rural Radicals: Righteous Rage in the American Grain* (Cornell University Press, 1996).

Susan J. Tolchin, *The Angry American: How Voter Rage is Changing the Nation* (Westview Press, 1996).

In the winter of 1992, a recently discharged white GI wrote to his hometown paper in Lockport, New York. With some anguish, he listed a familiar catalog of injustices: "Criminals have no fear of punishment"; "Taxes are a joke. . . . More taxes are always the answer to government mismanagement"; "Politicians are out of control. Their yearly salaries are more than an average person will see in a lifetime"; "The 'American Dream' of the middle class has all but disappeared, substituted with people struggling just to buy next week's groceries."

The young man had an acute sense of class grievance. "Maybe we have to combine ideologies to achieve the perfect utopian government," he mused. "Should only the rich be allowed to live long? Does that say that because a person is poor, he is a lesser human being; and doesn't deserve to live as long, because he doesn't wear a tie to work?"

Such views might have led the ex-GI into the Perot campaign or perhaps into the labor movement to which his father, a veteran autoworker, once belonged. But Timothy McVeigh, we know, was attracted to a wilder sphere of the discontented. In the Army, he had devoured survivalist magazines like *Soldier of Fortune* and seemed to enjoy harassing the black soldiers in his platoon; he often called them "nigger" and, when promoted to sergeant, relegated them to the most menial of duties. McVeigh's journey into the heart of the violent, bigoted right had clearly begun before he wrote that letter to the editor. On April 19, 1995, it may have culminated in the bombing of the Alfred P. Murrah Federal Building in Oklahoma City that killed 168 people.

What are the sources of a rage great enough to persuade men like Timothy McVeigh and his old army buddy Terry Nichols to take up arms against a popularly elected government? If one writes them off as "extremists" with no resonance outside a small circle of paranoid comrades, how do we understand McVeigh's letter, which echoes sentiments held by many if not most Americans?

Four decades ago, some of America's premier liberal intellectuals provided part of an answer when they sought to make sense of the far right of their day. David Riesman, Seymour Martin Lipset, Richard Hofstadter, and others contributed to a provocative anthology, *The Radical Right*, edited by Daniel Bell. Each essayist agreed that the most zealous disciples of Joe McCarthy were not traditional conservatives who cherished hierarchy and decorum. They made up a new American right of middle-class whites engorged with "populist" rage at an ascendant liberal establishment. Hofstadter traced this "pseudo-conservatism" to "the rootlessness and heterogeneity of American life, and above all, [to] its peculiar scramble for status and its peculiar search for identity." Orthodox Christians were lashing out, irrationally, against a New Deal order whose secular creed and distributionist policies seemed a threat to the self-reliant, God-fearing culture that

had prevailed in the U.S. since its founding.

The concept of status anxiety does offer some insight into the thinking of the alleged Oklahoma City bombers and the citizen militia groups who share their opinions, if not their tactics. These are, after all, white men (and a small number of women) who long to return to a past when their forebears called the cultural tune. Among militia members, belief in what McCarthy called "a conspiracy so immense" against American liberties remains as vibrant as ever. Of course, the identities of the bogeymen have changed; instead of Alger Hiss and the CIO, the enemy now appears in the shape of multiculturalists, feminists, and out-of-closet homosexuals. Listen to William Pierce, author of the tract-as-novel *The Turner Diaries*, a favorite read on the violent right, "[Our enemies] can't imagine why anyone would want to go back to the bad, old days when this was a White country, and men were men, and women were women, and the freaks stayed in the closet, and everyone worked for his living."

In the 1950s, even the most extreme McCarthyites put their energies into electing like-minded politicians. That far rightists now resort to paramilitary training and extra-constitutional remedies indicates a profound aversion to what American culture has become since the days when comic books were considered subversive. White supremacists who drill in mountain valleys and "freemen" who deny the legitimacy of federal judges can no longer abide the egalitarian, relativist mores of post-1960s America. They vow to reverse what they believe is a wrenching reign of liberal error—or die trying.

Unveiling Extremists

Kenneth S. Stern and Morris Dees (with presumed ghost James Corcoran) belong to a small but hardy band of progressive activists whose sole mission is the exposure and defeat of people like William Pierce. Dees has been at it for some two decades; chief counsel for the Southern Poverty Law Center, he is best known for concocting a legal strategy that successfully sued individual Ku Klux Klan leaders for civil rights violations and drove several KKK chapters into bankruptcy. Stern, who monitors hate groups for the American Jewish Committee, wrote an alarming report about the militia movement that was released only nine days before the terror attack in Oklahoma. Dees and Stern implicitly share with the contributors to Bell's anthology the belief that "extremists" are deranged individuals who can be isolated from the body politic, their cultural anxieties soothed with an appeal to what Dees calls "common sense and decency."

> Among militia members, belief in what McCarthy called "a conspiracy so immense" against American liberties remains as vibrant as ever.

The two books, unsurprisingly, feature the same cast of leading characters and tell most of the same stories about them. Both include lurid accounts of Christian Identity patriarch Randy Weaver and the FBI's fatal assault on his family's cabin in Ruby Ridge, Idaho; of William Pierce's version of Armageddon in which racist commandos lynch Jews and blow up FBI headquarters; of rabid talk show jockeys like G. Gordon Liddy who warn against "brutal thugs" who dare to enforce gun-control laws; of militia members who drill in camouflage uniforms and search the skies for black helicopters; and of Timothy McVeigh's descent from Desert Storm warrior to alleged destroyer of a building filled with hundreds of federal workers and dozens of small children.

There are stylistic differences. Dees has a weakness for melodrama; his chapters bear such titles as "Recipe for Disaster" and "The Last Best Hope." At times, his prose mirrors the apocalyptic views of his subjects: "America is at a very serious crossroads," he writes. "We are deeply divided along racial, political, economic, and class lines. Fear, anger, and paranoia prevail all too often." Kenneth Stern is cooler and more thoughtful. And, unlike Dees, he does not portray himself as the fearless vanguard of all whistle-blowers. Both authors, however, seem content to document, in almost numbing detail, the hate-

fulness of their subjects, in the hope that the rest of us will take steps to banish what Stern and Dees believe is a serious threat to racial tolerance and democracy.

Unearthing the nasty details about the violent right is necessary, of course. It prevents complacency and pinpoints who is responsible for which repulsive words or actions. But, like many a criminal investigation, it also avoids the search for larger meanings. Neither Stern nor Dees explains why such groups turn to violence or why they hold the mainstream views that appear in McVeigh's letter. Like Bell and his fellow postwar intellectuals, the authors seek to remove a toxic agent from the bloodstream of the body politic. But they neglect the fact that more legitimate figures on the right like Pat Robertson and Pat Buchanan also traffic in conspiracy-mongering.

Fortunately, that kind of myopia afflicts fewer of today's academic historians. About the time Ronald Reagan was elected president, a growing number of scholars began reexamining the right in both its legal and militant manifestations. After the publication of many empathetic "bottom-up" studies of wage earners, slaves, and woman reformers, it seemed time to discover the tenacious roots of a conservative coalition that could no longer be dismissed as extreme. As a result, historians now view the KKK of the 1920s as a movement of up to four million "white Protestant nationalists," regard Father Charles Coughlin as perhaps the New Deal's most persuasive critic, and understand the John Birch Society as a grassroots force that played a major role in the right's takeover of the Republican Party during the 1960s. No longer is U.S. political history synonymous with the rise, maturation, and decline of modern liberalism. Conservatives were there all along, asserting their alternative grievances and philosophies and limiting what liberals could accomplish. And "the people," however defined, were as likely to enlist in groups on the right as in the ranks of their opponents.

Catherine McNicol Stock epitomizes the new interpretive sobriety. Stock, who teaches at Connecticut College, attempts to connect McVeigh, Nichols, and their ideological circle to a broad, persistent current in the U.S. past. She calls it "white-male radicalism." Even before America became an independent nation, small farmers and other white rural folk were fighting big, wealthy urban interests with both words and weapons—and finding time to bash humble "outsiders" in their midst, particularly those with dark skins. As a progressive academic, Stock abhors William Pierce's opinions, but she would probably credit him with grasping a nugget of historical truth. The people she studies did equate the days "when this was a White country" with a culture in which "everyone worked for his living."

Stock is too good a historian to separate the two aspects of this common tradition. Often, the same proud "producers" who cursed heartless bankers and overcharging railroads helped lynch "uppity" blacks and drive Chinese immigrants from western mining towns. Both aspects of the "white-male radical"—the grassroots democrat and the racist vigilante—originated in that most American of desires: the pursuit of individual gain free from interference and restraint.

In the late colonial era, for example, poor white tenant farmers clashed with aristocratic landlords who tried to limit their access to the soil. Determined mobs routinely freed fellow rebels from the grip of the law. During one uprising in New York, writes Stock, "it was said that there was not a secure jail anywhere east of the Hudson River." On the Virginia frontier, a similar grievance led thousands of indentured servants to butcher Native Americans for insisting the land was theirs. In both cases, white colonists refused to accept permanent status as peasants or farm laborers; mass violence furthered their immediate self-interest as well as fueling a larger vision of social justice.

As Stock follows this two-headed tradition into the twentieth century, her analysis gradually loses some of its power. She stretches to fit groups like the KKK and the John Birch Society into her rural pattern, though neither was a hotbed of disgruntled small farmers. And she fails to explain why the paramilitary right of the 1990s identifies its enemy as Big Government instead of targeting the international corporations who shape our economy and culture far

more decisively than do bureaucrats who oversee public lands or regulate firearms. Still, her splendidly written narrative helps to confound simple definitions of "left" and "right" that have impeded our understanding of grassroots rage. After reading her book, McVeigh's 1992 letter makes more sense.

A Legacy of the Sixties

Scholars like Stock who grapple honestly with a long history of conflict, painful and contradictory as it was, seldom engage with writers like Dees and Stern who deplore the angry white men of the contemporary right. The call to quarantine hateful individuals and groups clashes with a search for their tangled roots in movements and causes that often demand our sympathy. To their credit, the investigators worry a good deal about how to check the disciples of William Pierce; scholars tend to abandon the field after contributing their broad-minded, if no less troubled, perspectives.

The historian and the anti-extremist sleuths do tend to assume that the far right has changed little over the decades. None of the writers comes to grips with what makes the militias a creature of the post-1960s era. McVeigh and his ilk are enmeshed in a particularly virulent form of identity politics—of the white male strain. Like radical Afrocentrists, they nurture a view of history as a massive plot to oppress their people and delude them about their true origins and capacities. They reject older universalist categories—"producers," "the common people," even "Christians"—in favor of a new identity as white patriots wrapped up in a grandiose self-image as "lost Israelites" at war with a "Zionist Occupation Government."

The militias' deep mistrust of the constitutional order also echoes the fiercely anti-authoritarian spirit that crested during the 1960s and shows little sign of ebbing. Those who wear camouflage garb and carry semiautomatic weapons might seem to have nothing in common with draft-card burners who wore buttons that declared, "Not With My Life You Don't." But they share a rejection of agencies, laws, and court rulings that demand citizens surrender their most cherished rights to the state. And, like the Black Panther Party, the militias equate the brandishing of firearms with the exercise of liberty. Obviously, it matters whether the "pigs" are FBI men descending on Idaho farmhouses or white police clamping down on the ghetto. But the Panthers and the patriot war-lovers both saw themselves as well-armed guerrillas defending their communities against implacable, external aggression.

McVeigh and his ilk are enmeshed in a particularly virulent form of identity politics—of the white male strain.

In the end, the Black Panthers barely rocked the stability of the state. What kind of menace do the militias and their doomsday-eager compatriots pose? The police and FBI must, of course, be prepared for future acts of right-wing terror. As Morris Dees predicts about his subjects, "They have killed before. And they will kill again." But the trials of Timothy McVeigh and Terry Nichols will only strengthen the contempt most Americans already feel toward anyone who tries to start a violent revolution. And the far right does not have the numbers to do prolonged mischief. Kenneth Stern estimates that, together, all the local militia groups have a membership of between 10,000 and 40,000. Even the higher figure is less than half the number of Americans who joined the John Birch Society during its heyday in the early 1960s.

Robert Welch and his minions, who campaigned hard for the presidential campaigns of Barry Goldwater and George Wallace, also boasted a strategic ken and organizational skill that the militias clearly lack. Last October, a scattering of paramilitary patriots from some eleven states attended what they dubbed the Third Continental Congress at a motel on the outskirts of Kansas City, Missouri. The would-be Refounders pledged to set up a Republican Provisional Government and then adjourned to the parking lot. One of their leaders admit-

ted to a reporter from the *New York Times* that they drilled with guns mostly because "it scares the [existing] Government."

When illuminated by the electronic media, these white guys in jungle-fighting mufti tend to flop and shrivel. A week or so after the Oklahoma City bombing, ABC's *Nightline* journeyed to a hamlet in rural Michigan that was home to the same local militia that later organized the underwhelming Congress in Kansas City. At a town meeting arranged by the network (participatory democracy for postmoderns?), Ted Koppel, ever suave and reasonable, asked a militia leader to tell his suspicious neighbors why he was training for war. The graying rebel, humorless and rigid, was no match for the sweet moderation of the visiting superstar. One almost felt sorry for the guy. No wonder even the most reactionary members of Congress now shun these pathetic, if intermittently lethal, warriors.

And the explicit racism and public Jew-hating that drive many on the violent right are depravities whose day has largely passed. Even David Duke and Louis Farrakhan rush to proclaim their tolerant intentions. In this sense, at least, the martyrs of the Holocaust and of the black freedom movement did not die in vain.

On the other hand, it would be foolish to minimize the discontents that fuel the fantasies of men like Tim McVeigh. Mistrust of the state and the defense of "traditional values" have defined the political discourse for some time now. The large majority of Americans are neither violent nor hateful, but they do long, like McVeigh, for public authorities who will respect their values and help to solve their economic problems. As Susan Tolchin points out in her new book, *The Angry American: How Voter Rage is Changing the Nation*, "People hate government because they expect more than government can possibly deliver, particularly in this era of budget constraints." Big businesses escape much of the blame because they deliver the goods—for those who can afford them. Corporations aren't democratic institutions, and, as such, no one but the most romantic libertarian really expects them to cure our public ills.

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Across the Atlantic, there is a radical right that dwarfs its American counterpart. In France, Italy, and Austria, anti-immigrant and racist parties have been winning a significant percentage of the vote while centrist regimes struggle to thin out once generous welfare states and seek to quiet fears about high unemployment and "unassimilated" foreigners. In recent years, events and political forces conspired to break the post-1945 social contract between ordinary citizens and the national leaders, major corporations, and big unions that once delivered an unprecedented measure of prosperity and expanded the meaning of human rights. A growing number of Europeans have turned against established politicians and parties whose typical response to the crisis of the postwar order has been to mull it over at length and then to make it worse.

Neofascists like Jörg Haider in Austria and Jean-Marie Le Pen in France have gained support, in part, because they offer something cautious social democrats sorely lack: an image, however bigoted and fanciful, of national pride and moral revitalization. In the U.S., the far right poses no comparable threat, but neither do we have a grassroots movement of the liberal left that can persuasively explain the sense of loss—to our culture as well as our jobs—that afflicts so many people of modest means. A politics based on policy ideas, like those contained in this magazine, will not appeal to many Americans unless there is an alternative vision to guide them. Only when progressives address the sufferings and dreams of our heterogeneous people will the far right be reduced to a dim, if unpleasant, memory.□

TODD GITLIN

Indelible Colors

WORK DISCUSSED IN THIS ESSAY

K. Anthony Appiah and Amy Gutmann, *Color Conscious: The Political Morality of Race* (Princeton University Press, 1996).

Races have godlike power in history. Like gods, there is good reason to doubt that they exist, but the belief that they do exist has enormous consequences. Of course, races are also unlike gods in a particular way. Since the middle of the nineteenth century, the claim that races exist has purported to be scientific. That is, from physical attributes (skin color, nose shape, hair texture), moral and intellectual essences are derived. Not all the pseudoscientists go all the way to the end of the line at Nuremberg. Some get off with Richard Herrnstein and Charles Murray, affecting compassion for the differently abled, and wrapping their charges in statistical hocus-pocus so intricate that it took a technical book to refute it (*Inequality by Design: Cracking the Bell Curve Myth)*, by a group of sociologists at the University of California at Berkeley, that, unfortunately, went unreviewed in any of the national publications that put *The Bell Curve* on the national intellectual agenda in 1994.

But whatever variety of chromatic or somatic absolutism is on offer, in practice all claims of the separability of pure racial types presuppose judgments of value. Unlike the classification of species, racial classification is almost always invidious. It presumes that people are fundamentally better and worse, not just different. Racial attributions are not innocent: They are generated to justify social arrangements. Historically, the label "white" has been a badge of superiority.

K. Anthony Appiah, the far-ranging professor of Afro-American studies and philosophy at Harvard, has argued before, with great effect, that claims of racial essence are pseudoscientific. In his 1992 book *In My Father's House: Africa in the Philosophy of Culture*, Appiah convincingly cited genetic evidence to the effect that members of a "race" (and he used scare quotes to indicate just how fabricated he thought the concept was) differ more on various characteristics within a single "race" than between "races." In his contribution to *Color Conscious: The Political Morality of Race*, an essay called "Race, Culture, Identity," Appiah continues his project of debunking the hardness and fastness of the category that is perhaps the most destructive in human history. The tricontinental philosopher brings to this task a valuable combination of tools, including the implements of analytic philosophy and a familiarity with historical and anthropological literatures from all over.

Appiah notes that justifiable suspicions of racist pseudobiology gave rise to the multiculturalist movement. Races, or race-like formations, are now to be understood as cultures, not biological givens. The multiculturalist gambit is to try to extract human differences from their bitter historical shells. In this way—so it is argued—we can have difference without making unwarranted claims of superiority. (As I write, the school board of Oakland, California, has declared Black English to be a language deserving of pedagogical and financial recognition, and while the resulting media storm has pressed it to retreat somewhat, the sort of thinking embedded in its declaration finds resonance in urban school systems elsewhere.) But this sort of thinking, Appiah writes, amounts to "the substitution of cultures for races." "Cultural essences" replace "racial essences."

Appiah argues persuasively that this move is intellectually weak. First, American cultures (African-American, Asian-American, Italian-American) are not cultures in any traditional sense. They are not uniform within racial "communities." They mix and borrow with relative ease. Second, the many differences in belief, value, and practice that exist in

the United States of America do not correspond systematically to ethnic and racial categories. The simple point is that "it is doubtful whether [African Americans, Chinese Americans, or white Americans, for example] have common cultures at all." They may share something in common, but it is not the ensemble of values, beliefs, and practices that are entailed by the concept of culture. Inter-group tensions do not result from cultural misunderstandings but from unequal power.

What the shared "something" might be, Appiah calls identity. Appiah defines identities as "essentially contrastive," relating "centrally to social and political power." Identities, in other words, are ranks imposed from without—castes, in other circumstances—but, in the contemporary meaning of the term, they are also choices made from within. They are not only attributions made by society but also active affirmations made by the self. In particular, positive affirmations of identity serve (at least up to a point) to repair stigmas. They start from the deprivations imposed by power and, as in a judo move, turn them upside down.

Starting in the late 1960s, for example, the "blackness" equated with ugliness by the dominant culture has become beautiful. Appiah wants this stage to be provisional—a way station to the transcendence of identity, so that group identity does not squash individual freedom. He knows that identities, including despised identities, have a tendency to "go imperial," becoming be-alls and end-alls, diminishing the complexity of human existence. "The identities we need," he concludes, "will have to recognize both the centrality of difference within human identity and the fundamental moral unity of humanity."

So far, so good. But the result is somehow less compelling than one would like to expect. Perhaps this is partly because the plane of Appiah's reasoning is abstracted from the sociological question of why identities feel so urgent nowadays, and from the political question of what group identifications accomplish and render difficult. Appiah notes in passing that the core of a shared identity is "the sense of solidarity that comes from being unlike others." But he fails to make enough of this motor of identity. Why should so many people today be striving to shore up such a fierce sense of group solidarity?

The reasons, in my view, are twofold. The first, which Appiah identifies, is reactive: The sense of positive otherness is a recoil against discrimination. While arguably less effective than a generation ago, discrimination of various sorts is perhaps felt to be all the more heinous and intolerable today partly because the civil rights movement and the great reform wave of the 1960s promised to destroy it altogether. The second reason for such fierce group solidarity is compensatory. In today's culture of shattered families, Disney, McDonald's, and the mall, social being—the sense of roots—has become unbearably light. American identity, weak from the start, has lost the cohesion brought about by the Cold War. The universalist identities of the left barely exist. This is the setting in which group identities afford satisfaction—emotional solidarities as well as the promise of political payoffs.

Appiah issues a healthy reminder about the danger to individual life that is built into reactive identities: "Racial identity can be the basis of resistance to racism; but even as we struggle against racism—and though we have made great progress, we have further still to go—let us not let our racial identities subject us to new tyrannies." But he does not address the political downside of racial (or other group) identification—the political fragmentation that leaves the left desperately diffuse and demobilized as the devitalized center heaves rightward.

In her eminently sensible contribution to *Color Conscious*, "Responding to Racial Injustice," Princeton political philosopher Amy Gutmann reiterates some of Appiah's arguments and takes them into the realm of policy. Gutmann's argument here takes the form of a critique of cavalier color-blindness. Color-blindness is not just an ideal—it is also a disability, because as Gutmann points out, white-black inequality cannot be reduced to economic inequality. "Even if all the necessary class conscious policies were in place, some color conscious policies might still be necessary before the United States could become a fully just society."

Note: color conscious. Gutmann is at pains to argue (echoing Appiah) that, while race is a fraudulent construct for most analytical purposes—and for all just political purposes—color is a category that is legitimately deployed, because it comes with

a history of privilege and dispossession. In a society systematically brutal and unfair to people of African origin, to pretend that history started again the day before yesterday is absurd. To say that color consciousness is defensible in principle, of course, is not to say that it is always right. Like color-blindness, color consciousness can be abused. Still, Gutmann gives a largely persuasive defense of affirmative action policies that take color into account. She refutes the claim (forwarded by Dinesh D'Souza in *Illiberal Education* and enshrined by the University of California Regents in their attempt to destroy affirmative action in 1995) that class consciousness amounts to a usable surrogate for color consciousness. Both class consciousness and color consciousness are defensible, but the former does not do the work of the latter.

Unfortunately, like virtually every other commentator on these difficult matters, Gutmann fails to engage Stephen Carter's powerful and constructive argument, in *Reflections of an Affirmative-Action Baby*, to the effect that the arguments for affirmative action are stronger at the bottom of achievement pyramids (school admissions, entry-level hiring) than at the higher reaches (university tenure, the Supreme Court). Many forms of affirmative action can be defended on grounds of fairness, though many cannot, but even the best are most convincing when they do not invite the second-worst off to pay the steepest price for improving the lot of the worst off.

Gutmann also argues for the legitimacy of precisely the sort of race-based districts of the sort ruled unconstitutional by the Supreme Court in its 1996 decision in *Shaw v. Hunt*. But here, events may (though they may not) have superseded the apprehensions.

Despite alarms sounded beforehand in the African-American community, the 1996 election results showed that black incumbents redistricted out of black-majority districts were able to win handily even after they were thrown into white-majority districts. The important debate now is over the reasons. Are the victories of African-American incumbents like Georgia's Cynthia McKinney attributable mainly to the powers of incumbency, or do they indeed demonstrate that color consciousness in the drawing of legislative districts is no longer necessary for the purpose of seeing African Americans represented in the national legislature? It's an empirical question, and a hard one to answer. Still, it may turn out that, in a bad political year, one of the best outcomes was the proof that cross-racial coalitions might work.

Gutmann wisely points out that racial consciousness "has the effect, often intended but even when not, of dividing human beings against the cause of social justice." Color consciousness, by contrast, is aware of the superficiality—"only skin-deep"—of the difference. Therefore it opens the door to alliances. But, it seems to me, the authors of the essays do not quite step through that door. The not-quite-acknowledged fact in both of these admirable statements of political philosophy is that the African-American population numbers about 12 percent of the U.S. population. Blacks and whites, when surveyed, systematically double the number—blacks, I would guess, out of their experience in a segregated world, whites, I think, more out of fear. But the fact remains that African Americans constitute a minority, and no wishful thinking or census projection changes this fact. Neither does adding up abstract minorities automatically produce a victory for general justice. This irrefutable but hard-to-face fact stands at the heart of a political problem. An oppressed minority is still a minority. It wins policies that work to its benefit when it persuades majorities. This is not accomplished by an obsession with separate identities, but rather with a sensibility that, while aware of the different attachments that people bring to society, is equally aware of their overlap and mutual need. This is the lesson of the civil rights movement, which won the majority to the support of a minority. It is likewise the lesson of America's most successful movements of African Americans. As Appiah aptly observes, when the Dred Scott decision of 1857 decreed that blacks were not citizens of the United States, Frederick Douglass (who belongs in every American canon) opposed it in the name of universal values: "As a man, an American, a citizen, a colored man of both Anglo-Saxon and African descent, I denounce this representation as a most scandalous and devilish perversion of the Constitution." We could use a lot more of Douglass's sort of inclusive language in the political rhetoric of our own time.❑

The Upside of Unemployment

Our last issue described PaineWebber's "happiness index" for bonds, which goes up when unemployment increases. But unemployment, we've now learned, can prolong your life too. Our impeccable source is a new study from the National Bureau of Economic Research: "Are Recessions Good for Your Health?" by Christopher Rohm (NBER Working Paper No. 5570). Rohm finds that recessions do indeed promote good health, at least if you're young; in fact, according to an NBER summary, "a one percentage point rise in unemployment lowers the predicted death rate of 20-44 year olds by 1.3 percent." Strangely, however, unemployment seems to have no effect on 45- to 64-year-olds and just a slight—though still positive—effect on those over 65.

Here's the breakdown on the good news. With 1 percent more unemployment, deaths from car crashes drop by 2.4 percent, from homicides by 1.5 percent, from liver ailments by 0.8 percent, and from heart disease and cancer by 0.2 to 0.5 percent. On the other hand, suicides go up by 0.7 percent—but, then, you can't expect everything to go right when people lose their jobs.

Next questions: Does higher unemployment also raise school test scores and promote belief in God? Send your grant applications to the Clear Conscience Commission, Federal Reserve Bank, Washington, D.C.

Guns and Dolls

Speaking up for the police, James Bovard recently caught our notice with a column in the *Wall Street Journal* about a little-noticed side effect of legislation adopted last September by Congress to restrict the ownership of guns by people convicted of domestic violence.

The Lautenberg Act, as it is known (in honor of its chief Senate sponsor, Democrat Frank Lautenberg of New Jersey), bars the ownership of a gun or ammunition by anyone convicted of a misdemeanor involving the use or attempted use of physical force against a family member or intimate partner. (Legislation passed in 1968 prohibited gun ownership by those with felony convictions.) One problem with the law, according to Bovard, is that it does not make an exception for police, and he cites an estimate by the director of a criminal justice program at Eastern Kentucky University, doubtless an incontrovertible source, that if there were accurate reporting of police domestic violence, "10% of the nation's law enforcement officials (70,000 individuals) could be found guilty and thus banned from possessing a firearm under the new law."

With friends like Bovard, the police hardly need critics. On the bright side, we hadn't realized that when police officers get called in on cases of domestic violence, the chances are so good that one of them will have the kind of personal experience that encourages genuine sympathy with the offender.

Bovard also questions whether or not there was really an "epidemic of wife killing" that justified "disarming" men, and he points out "according to FBI statistics, the rate of women killed by husbands or boyfriends since the mid-1970s has fallen almost 20%." Of course, public and private efforts to protect battered spouses (including laws barring firearms from those convicted of domestic violence felonies) could be having an effect, and the new law might have even more. But never mind: Evidence of success counts against liberal reforms just as strongly as evidence of failure.

—*Paul Starr*